

***Managerial Accounting, 3e (Braun/Tietz)***

**Chapter 2 Building Blocks of Managerial Accounting**

1) Service companies must carry a large amount of inventory to meet consumer demand.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: E2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

2) Manufacturing companies usually have three types of inventory.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: E2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

3) Retailers sell their products to consumers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: E2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

4) Merchandising companies include both wholesalers and retailers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

5) All companies have the same types of inventories.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

6) Only manufacturing companies have finished goods inventory.

Answer: TRUE

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

7) Which of the following are merchandising companies?

A) Manufacturers

B) Retailers

C) Wholesalers

D) Both retailers and wholesalers

Answer: D

Diff: 1

LO: 2-1

EOC: E2-15A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

8) Which of the following types of companies has raw materials, work in process and finished goods inventory?

A) Retailers

B) Manufacturers

C) Wholesalers

D) Service companies

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

9) Which type of company makes up the largest sector of the United States economy?

A) Manufacturers

B) Merchandising

C) Wholesalers

D) Service companies

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

10) The balance sheet of a service company has

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

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

11) Schlabilg & Associates, a public accounting firm, is what type of company?

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

12) Jiffy Lube, an automotive maintenance company, is primarily what type of company?

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

Answer: D

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

13) Among other products, Nabisco makes Oreo cookies. Which type of company is Nabisco?

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

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

15) What type of company resells products it purchases ready-made from suppliers?

- A) Merchandiser
- B) Retailer
- C) Wholesaler
- D) All of the above

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

- 16) Before these materials are used to manufacture its cars, Toyota classifies steel, glass, and plastic as
- A) raw materials inventory.
  - B) finished goods inventory.
  - C) work in process inventory.
  - D) merchandise inventory.

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

- 17) Before these materials are used to manufacture cabinets, a woodworker classifies lumber, paint, and glue as
- A) finished goods inventory.
  - B) work in process inventory.
  - C) raw materials inventory.
  - D) merchandise inventory.

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

- 18) Macy's (the department store chain) classifies its clothing held for sale as
- A) merchandise inventory.
  - B) raw materials inventory.
  - C) work in process inventory.
  - D) finished goods inventory.

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

19) American Eagle Outfitters classifies the denim jeans on the shelves at its retail locations as

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

20) How would Chevrolet classify its partially completed vehicles?

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

21) In the United States, the fastest growing type of company is

- A) merchandising.
- B) service.
- C) manufacturing.
- D) none of the above.

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

23) A snow removal business would be classified as a

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

Answer: D

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

24) An accounting firm would be classified as a

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

Answer: D

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

25) Toshiba Corporation makes computer chips. Toshiba Corporation would be classified as a

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

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

26) Which type of company has three types of inventory?

- A) A manufacturing company
- B) A merchandising company
- C) A service company
- D) All of these companies

Answer: A

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

27) For a \_\_\_\_\_, inventory consists of freight-in and the cost of the product which is to be resold.

- A) service company
- B) manufacturing company
- C) merchandising company
- D) all of these companies

Answer: C

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



28) A \_\_\_\_\_ company has the highest percentage of labor costs as compared to the other types of companies.

- A) merchandising
- B) service
- C) manufacturing
- D) All companies have a high percentage of labor costs.

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: D

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

30) All of the following items would be found in raw materials inventory for a furniture manufacturer **except**

- A) wood.
- B) fabric.
- C) steel framing.
- D) assembly worker wages.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

31) Which of the following costs could be found in work in process inventory for a candy bar manufacturer?

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

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

32) Enter the letter of the type of company on the line in front of each statement. Letters may be used more than once or not at all.

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

- \_\_\_ generally has no inventory
- \_\_\_ has three types of inventory
- \_\_\_ inventory consists of freight-in and the cost of the product
- \_\_\_ has the highest percentage of labor costs
- \_\_\_ Wal-Mart is this type of company

Answer: A, C, B, A, B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

33) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

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

- \_\_\_ typically have a single category of inventory
- \_\_\_ resell products they previously purchased ready-made from suppliers
- \_\_\_ do not have inventory for resale
- \_\_\_ produce its own inventory
- \_\_\_ transform raw materials into new finished products
- \_\_\_ ready to sell inventory of manufacturers
- \_\_\_ partially completed items of manufacturers

Answer:

- G typically have a single category of inventory
- G resell products they previously purchased ready-made from suppliers
- B do not have inventory for resale
- F produce its own inventory
- F transform raw materials into new finished products
- D ready to sell inventory of manufacturers
- E partially completed items of manufacturers

Diff: 2

LO: 2-1

EOC: E2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

34) Describe service, merchandising, and manufacturing companies.

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

Diff: 2

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 2

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 2

LO: 2-1

EOC: S2-1

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

38) Controlling costs across the entire value chain often requires a trade-off between the individual elements of the value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: FALSE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

41) The value chain concept helps companies control costs over the value chain as a whole.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

45) For a merchandising company, the costs of shipping inventory to the retail outlet is associated with which element of the value chain?

A) Design

B) Distribution

C) Production and Purchases

D) Customer Service

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

46) All of the following are part of a company's value chain **except**

A) design.

B) distribution.

C) administration.

D) marketing.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

47) Which of the following activities is **not** included in the value chain?

A) Reporting

B) Design

C) Production

D) Customer service

Answer: A

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

48) All of the following activities are included in the value chain **except**

- A) customer service.
- B) design.
- C) safety.
- D) production.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

49) Which of the following would **not** be included in the value chain?

- A) Website development costs
- B) Costs to deliver product to retail outlets
- C) Costs of print advertisements
- D) All of these costs would be included as part of the value chain.

Answer: D

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

50) The value chain is used by

- A) service, manufacturing and merchandising businesses.
- B) only service and manufacturing businesses.
- C) only service and merchandising businesses.
- D) only manufacturing and merchandising businesses.

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

51) Collectively, all costs such as distribution, marketing, and design are part of

- A) downstream activities.
- B) fixed costs.
- C) the value chain.
- D) manufacturing costs.

Answer: C

Diff: 21

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

52) What is the promotion of products and services known as?

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

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

53) All of the following relate to part of the value chain for a clothing company **except**

- A) cost of advertising the new products.
- B) administrative costs.
- C) cost of shipping to retailers.
- D) salaries of clothing designers.

Answer: B

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



54) Which part of the value chain would depreciation on a factory be classified as?

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

Answer: D

Diff: 1

LO: 2-2

EOC: E2-23A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

55) Testing ways to increase the strength of your product would be classified as which part of the value chain?

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

Answer: D

Diff: 1

LO: 2-2

EOC: E2-23A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

56) Which part of the value chain would a technical support hotline for customers be considered?

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

Answer: B

Diff: 21

LO: 2-2

EOC: E2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: B

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

59) The costs incurred to get merchandise to a company's retail store would be considered to be what part of the value chain?

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

Answer: C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

60) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost of research and development?

- A) \$73,000
- B) \$70,000
- C) \$55,000
- D) \$195,000

Answer: B

Diff: 21

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

61) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost for the production category of the value chain?

- A) \$496,000
- B) \$202,000
- C) \$180,000
- D) \$330,000

Answer: B

Explanation: B) Calculations:  $\$ 72,000 + 3,000 + 75,000 + 52,000 = \$202,000$

Diff: 2

LO: 2-2

EOC: E2-23A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

62) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost for the design category of the value chain?

- A) \$267,000
- B) \$188,000
- C) \$197,000
- D) \$125,000

Answer: D

Diff: 2

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

63) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost for the distribution category of the value chain?

- A) \$217,000
- B) \$23,000
- C) \$20,000
- D) \$151,000

Answer: C

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

64) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost for the marketing category of the value chain?

- A) \$69,000
- B) \$188,000
- C) \$197,000
- D) \$267,000

Answer: A

Explanation: A) Calculations:  $\$63,000 + 6,000 = \$69,000$

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

65) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 72,000
Caps for milk bottles	3,000
Reconfiguring the assembly line	125,000
Customer support hotline	10,000
Delivery expenses	20,000
Depreciation on factory equipment	75,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	70,000
Customer toll-free order line	6,000

What is the total cost for the customer service category of the value chain?

A) \$82,000

B) \$16,000

C) \$73,000

D) \$10,000

Answer: D

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



66) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost of research and development?

- A) \$55,000
- B) \$68,000
- C) \$65,000
- D) \$188,000

Answer: C

Diff: 21

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

67) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost for the production category of the value chain?

A) \$457,000

B) \$307,000

C) \$148,000

D) \$146,000

Answer: D

Explanation: D) Calculations: \$ 56,000 + 35,000 + 3,000 + 52,000 = \$146,000

Diff: 2

LO: 2-2

EOC: E2-23A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

68) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost for the design category of the value chain?

- A) \$244,000
- B) \$186,000
- C) \$179,000
- D) \$123,000

Answer: D

Diff: 2

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

69) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost for the distribution category of the value chain?

- A) \$40,000
- B) \$43,000
- C) \$219,000
- D) \$171,000

Answer: A

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

70) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost for the marketing category of the value chain?

- A) \$71,000
- B) \$179,000
- C) \$186,000
- D) \$244,000

Answer: A

Explanation: A) Calculations:  $\$63,000 + \$8,000 = \$71,000$

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

71) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	\$ 56,000
Depreciation on factory equipment	\$ 35,000
Caps for bottles	\$ 3,000
Plastic bottles	\$ 52,000
Reconfiguring the assembly line	\$123,000
Salaries of salespeople	\$ 63,000
Customer support hotline	\$ 12,000
Salaries of research scientists	\$ 65,000
Delivery expenses	\$ 40,000
Customer toll-free order line	\$ 8,000

What is the total cost for the customer service category of the value chain?

- A) \$68,000
- B) \$12,000
- C) \$20,000
- D) \$75,000

Answer: B

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Depreciation expense on bottling machines	\$ 63,000
Glass juice bottles	\$ 60,000
Commissions for salespeople	\$ 30,000
Salaries of nutrition researchers	\$ 75,000
Costs of maintaining website used for customer orders	\$ 4,000
Wages of factory workers	\$ 75,000
Freshness seals/caps for juice bottles	\$ 3,000
Reconfiguring the factory layout	\$122,000
Customer help line	\$ 5,000
Costs of refrigerated trucks used to deliver juice	\$ 25,000

What is the total cost for the research and development category of the value chain?

- A) \$75,000
- B) \$78,000
- C) \$63,000
- D) \$197,000

Answer: A

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Depreciation expense on bottling machines	\$ 63,000
Glass juice bottles	\$ 60,000
Commissions for salespeople	\$ 30,000
Salaries of nutrition researchers	\$ 75,000
Costs of maintaining website used for customer orders	\$ 4,000
Wages of factory workers	\$ 75,000
Freshness seals/caps for juice bottles	\$ 3,000
Reconfiguring the factory layout	\$122,000
Customer help line	\$ 5,000
Costs of refrigerated trucks used to deliver juice	\$ 25,000

What is the total cost for the production category of the value chain?

- A) \$462,000
- B) \$60,000
- C) \$302,000
- D) \$201,000

Answer: D

Explanation: D) Calculations:  $\$75,000 + 3,000 + 63,000 + 60,000 = \$201,000$

Diff: 2

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



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

Depreciation expense on bottling machines	\$ 63,000
Glass juice bottles	\$ 60,000
Commissions for salespeople	\$ 30,000
Salaries of nutrition researchers	\$ 75,000
Costs of maintaining website used for customer orders	\$ 4,000
Wages of factory workers	\$ 75,000
Freshness seals/caps for juice bottles	\$ 3,000
Reconfiguring the factory layout	\$122,000
Customer help line	\$ 5,000
Costs of refrigerated trucks used to deliver juice	\$ 25,000

What is the total cost for the design category of the value chain?

- A) \$122,000
- B) \$197,000
- C) \$152,000
- D) \$272,000

Answer: A

Diff: 2

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Depreciation expense on bottling machines	\$ 63,000
Glass juice bottles	\$ 60,000
Commissions for salespeople	\$ 30,000
Salaries of nutrition researchers	\$ 75,000
Costs of maintaining website used for customer orders	\$ 4,000
Wages of factory workers	\$ 75,000
Freshness seals/caps for juice bottles	\$ 3,000
Reconfiguring the factory layout	\$122,000
Customer help line	\$ 5,000
Costs of refrigerated trucks used to deliver juice	\$ 25,000

What is the total cost for the distribution category of the value chain?

- A) \$28,000
- B) \$29,000
- C) \$222,000
- D) \$151,000

Answer: B

Explanation: B)  $\$4,000 + \$25,000 = \$29,000$

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Depreciation expense on bottling machines	\$ 63,000
Glass juice bottles	\$ 60,000
Commissions for salespeople	\$ 30,000
Salaries of nutrition researchers	\$ 75,000
Costs of maintaining website used for customer orders	\$ 4,000
Wages of factory workers	\$ 75,000
Freshness seals/caps for juice bottles	\$ 3,000
Reconfiguring the factory layout	\$122,000
Customer help line	\$ 5,000
Costs of refrigerated trucks used to deliver juice	\$ 25,000

What is the total cost for the marketing category of the value chain?

- A) \$272,000
- B) \$34,000
- C) \$152,000
- D) \$197,000

Answer: B

Explanation: B) Calculations: \$ 30,000 + 4,000 = \$ 34,000

Diff: 2

LO: 2-2

EOC: E2-34B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

What is the total cost for the customer service category of the value chain?

- A) \$2,000
- B) \$35,000
- C) \$80,000
- D) \$ 9,000

Answer: A

Diff: 2

LO: 2-2

EOC: E2-33B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

79) A product support hot line would be considered

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

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: 2, 6, 4, 1, 5, 3

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

81) Place the letter for the appropriate value chain activity on the line in front of each item. Letters may be used more than once or not at all. Assume a manufacturer.

A.	research and development	D.	marketing
B.	design	E.	distribution
C.	production or purchases	F.	customer service

- \_\_\_ depreciation expense on equipment in factory
- \_\_\_ delivery expense
- \_\_\_ toll free line for customer orders
- \_\_\_ customer support hot line
- \_\_\_ assembly line workers' wages

Answer: C, E, D, F, C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

83) Classify each of the following business costs into one of the six value chain elements.

- A. cost of a commercial during a TV program
- B. cost of shipping goods to customers
- C. costs associated with repairing products under warranty
- D. costs of developing a new product
- E. cost of making a prototype of a new product
- F. cost of labor for machine operator in factory

Answer: A. marketing

B. distribution

C. customer service

D. research and development

E. design

F. production

Diff: 3

LO: 2-2

EOC: S2-3

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

84) The total cost of a cost object can only include the direct costs that are directly traced to that cost object.

Answer: FALSE

Diff: 2

LO: 2-3

EOC: E2-20

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

85) If a company wants to determine a product's cost, it must assign both direct and indirect costs.

Answer: TRUE

Diff: 2

LO: 2-3

EOC: E2-20A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-3

EOC: E2-20A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

87) Direct costs can be traced to specific units.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

89) Which of the following items could be an example of a cost object?

A) A manufacturing plant

B) An international plant

C) The accounting department

D) All of the above are examples of potential cost objects.

Answer: D

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

90) Which of the following is **not** an example of an indirect cost incurred in manufacturing automobiles?

- A) Plant supervisor salary
- B) Machinery depreciation in the factory
- C) Plant utilities
- D) Cost of the automobile engines

Answer: D

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

91) A factory janitor's wages would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) an indirect cost
- B) a direct cost
- C) a period cost
- D) none of the above

Answer: A

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

92) A salesperson's salary would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) a direct cost
- B) a period cost
- C) an indirect cost
- D) none of the above

Answer: B

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



93) The cost of lighting the factory would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) an indirect cost
- B) a direct cost
- C) a period cost
- D) none of the above

Answer: A

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

94) Which of the following would **not** be considered a direct material for a mattress?

- A) Fabric
- B) Lumber
- C) Glue
- D) Steel

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

95) All of the following would be considered a direct material for a kitchen cabinet **except**

- A) wood.
- B) stain.
- C) sand paper.
- D) hinges.

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

96) Prime costs consist of

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

Answer: A

Diff: 1

LO: 2-3

EOC: E2-20A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

97) Conversion costs consist of

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

Answer: B

Diff: 1

LO: 2-3

EOC: E2-20A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

98) An example of direct labor would be which of the following?

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

Answer: D

Diff: 1

LO: 2-3

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

99) Which of the following is an example of direct labor?

- A) Wages of a managerial accountant
- B) Wages of a machine operator
- C) Salary of the vice-president of operations
- D) Wages of the CFO

Answer: B

Diff: 1

LO: 2-3

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: B

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

101) Which of the following is an example of indirect labor in a manufacturing plant?

- A) Chief operating officer
- B) Machine operators
- C) Salespersons
- D) Plant managers

Answer: D

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: A

Diff: 2

LO: 2-3

EOC: S2-5

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: C

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

104) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Prime costs for Country Furniture Company totaled

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

Answer: C

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

105) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Conversion costs for Country Furniture Company totaled

A) \$415,500.

B) \$250,500.

C) \$504,500.

D) \$352,500.

Answer: A

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

106) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Direct material costs for Country Furniture Company totaled

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

Answer: C

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

107) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Direct labor costs for Country Furniture Company totaled

A) \$344,000.

B) \$115,000.

C) \$155,500.

D) \$321,000.

Answer: C

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



108) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Manufacturing overhead costs for Country Furniture Company totaled

A) \$130,000.

B) \$260,000.

C) \$236,000.

D) \$330,500.

Answer: B

Explanation: B) Calculations:  $\$16,000 + \$50,500 + \$3,000 + \$21,000 + \$115,000 + \$54,500 = \$260,000$

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

109) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Prime costs for Rustic Living Furniture Company totaled

A) \$126,000.

B) \$23,000.

C) \$123,000.

D) \$168,500.

Answer: A

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

110) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Conversion costs for Rustic Living Furniture Company totaled

A) \$126,000.

B) \$175,000.

C) \$294,000.

D) \$271,500.

Answer: D

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

111) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Direct material costs for Rustic Living Furniture Company totaled

A) \$15,000.

B) \$26,000.

C) \$23,000.

D) \$8,000.

Answer: B

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

112) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Direct labor costs for Rustic Living Furniture Company totaled

A) \$227,500.

B) \$220,000.

C) \$100,000.

D) \$60,000.

Answer: C

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

113) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Manufacturing overhead costs for Rustic Living Furniture Company totaled

A) \$171,500.

B) \$79,000.

C) \$150,000.

D) \$217,500.

Answer: A

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

114) Use the correct number to designate each item below. Assume a manufacturer.

1. direct materials
2. selling and general expenses
3. manufacturing overhead
4. direct labor

- A) \_\_\_\_ rent expense on factory building
- B) \_\_\_\_ sales supplies used
- C) \_\_\_\_ factory supplies used
- D) \_\_\_\_ indirect materials used
- E) \_\_\_\_ wages of assembly line personnel
- F) \_\_\_\_ cost of primary material used to make product
- G) \_\_\_\_ depreciation expense on office equipment
- H) \_\_\_\_ rent expense on office facilities
- I) \_\_\_\_ insurance expired on factory equipment
- J) \_\_\_\_ utilities incurred in the office
- K) \_\_\_\_ advertising expense
- L) \_\_\_\_ taxes paid on factory building

Answer: A) 3, B) 2, C) 3, D) 3, E) 4, F) 1, G) 2, H) 2, I) 3, J) 2, K) 2, L) 3

Diff: 2

LO: 2-3

EOC: E2-17A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

115) Differentiate between:

A. direct materials versus indirect materials

B. direct labor versus indirect labor

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

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

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

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

Diff: 2

LO: 2-3

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

116) Indirect manufacturing costs should be included in manufacturing overhead.

Answer: TRUE

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

117) An inventoriable cost could be the cost of the marketing and distribution of a product.

Answer: FALSE

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



118) Inventoriable product costs consist of manufacturing overhead, direct labor and direct materials.

Answer: TRUE

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

119) Indirect materials, indirect labor, and indirect manufacturing costs are what type of manufacturing cost?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Prime costs

Answer: C

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

120) Which of the following would **not** be considered a product cost for a manufacturer?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Freight out

Answer: D

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

121) Period costs are

A) always recorded as an expense.

B) always considered part of the inventory.

C) expensed only when the inventory is sold.

D) none of the above.

Answer: A

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

122) All of the following are period costs **except**

- A) distribution expenses.
- B) direct labor expenses.
- C) marketing expenses.
- D) research and development expenses.

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

123) Inventoriable product costs for a product are described by which of the following?

- A) Inventoriable product costs are narrower in scope than total costs.
- B) Inventoriable product costs include all costs of the value chain.
- C) Inventoriable product costs consist of direct materials, direct labor and manufacturing overhead.
- D) Both A and C are correct.

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

124) Inventoriable product costs for a manufactured product include

- A) the costs of direct materials, direct labor and manufacturing overhead.
- B) marketing and research and development costs.
- C) the costs of direct materials and direct labor only.
- D) none of the above.

Answer: A

Diff: 2

LO: 2-4

EOC: S2-3

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

125) Inventoriable product costs are best described by which of the following statements?

- A) They are expensed on the income statement when incurred.
- B) They include marketing and distribution costs.
- C) They are used for external reporting purposes.
- D) Both A and C are correct.

Answer: C

Diff: 2

LO: 2-4

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: C

Diff: 2

LO: 2-4

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: A

Diff: 2

LO: 2-4

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

128) Which of the following costs include all of the costs associated with production of a product?

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

Answer: A

Diff: 2

LO: 2-4

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

129) Manufacturing overhead costs for a product include

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

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

130) When do inventoriable costs become expenses?

- A) When direct materials are purchased
- B) When the manufacturing process begins
- C) When the manufacturing process is completed
- D) None of the above

Answer: D

Diff: 2

LO: 2-4

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

131) Indirect materials and indirect labor are \_\_\_\_\_ for a manufactured product.

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

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

132) Manufacturers consider selling and administrative costs to be

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

Answer: A

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

133) Which of the following is an example of a period cost when manufacturing products?

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

Answer: B

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

134) Which of the following is an example of an inventoriable cost when manufacturing products?

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

Answer: D

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

135) When manufacturing products, direct labor and direct materials are classified as

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

Answer: B

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

136) Certain materials used in a manufacturing plant cannot be traced to a specific unit. What are these materials called?

- A) General materials
- B) Direct materials
- C) Indirect materials
- D) Finished materials

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

137) Rent on a factory building would be considered to be a \_\_\_\_\_ cost.

- A) product
- B) period
- C) direct
- D) none of the above

Answer: A

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

138) The \_\_\_\_\_ element in the value chain would contain inventoriable costs for a manufacturer.

- A) research and development
- B) production
- C) design
- D) distribution

Answer: B

Diff: 2

LO: 2-4

EOC: E2-18A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

139) Pink Ribbon Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

Research and development	\$ 53,000
Design	\$ 17,000
Purchases	\$ 72,000
Marketing	\$ 42,000
Distribution	\$ 58,000
Customer service	\$ 35,000

What were the company's inventoriable costs?

- A) \$142,000
- B) \$17,000
- C) \$72,000
- D) \$89,000

Answer: C

Diff: 2

LO: 2-4

EOC: E2-18

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

140) Pink Ribbon Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

Research and development	\$ 53,000
Design	\$ 17,000
Purchases	\$ 72,000
Marketing	\$ 42,000
Distribution	\$ 58,000
Customer service	\$ 35,000

What were the company's period costs?

- A) \$205,000
- B) \$277,000
- C) \$100,000
- D) \$135,000

Answer: A

Explanation: A) Calculations:  $\$ 53,000 + 17,000 + 42,000 + 58,000 + 35,000 = \$205,000$

Diff: 2

LO: 2-4

EOC: E2-18

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



141) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Product costs for Country Furniture Company totaled

A) \$510,500.

B) \$486,500.

C) \$370,000.

D) \$526,500.

Answer: A

Explanation: A) Calculations: \$ 16,000 + 50,500 + 3,000 + 21,000 + 115,000 + 10,000 + 3,000 + 155,500 + 82,000 + 54,500 = \$ 510,500

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

142) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

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

Period costs for Country Furniture Company totaled

- A) \$41,000.
- B) \$129,000.
- C) \$44,500.
- D) \$67,500.

Answer: D

Explanation: D) Calculations: \$ 9,000 + 23,000 + 9,000 + 26,500 = \$ 67,500

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

143) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Product costs for Rustic Living Furniture Company totaled

A) \$203,500.

B) \$273,500.

C) \$297,500.

D) \$295,000.

Answer: C

Explanation: C) Calculations:  $\$18,000 + 60,000 + 500 + 21,000 + 12,000 + 60,000 + 8,000 + 3,000 + 100,000 + 15,000 = \$297,500$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

144) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

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

Period costs for Rustic Living Furniture Company totaled

A) \$43,000.

B) \$35,500.

C) \$16,500.

D) \$65,000.

Answer: A

Explanation: A) Calculations:  $\$1,000 + 7,500 + 8,000 + 26,500 = \$43,000$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

145) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	\$ 151,000
Heating and lighting costs for factory	\$ 65,000
Factory janitor wages	\$ 67,000
Costs of shipping to customers	\$ 11,000
Lubricants used in factory equipment	\$ 2,000
Lighting costs for sales office	\$ 20,000
Depreciation on factory equipment	\$ 23,000
Office supplies for sales office	\$ 6,000
Insurance costs for factory	\$ 13,000
Maintenance worker wages	\$ 99,000
Freight-in (on plastics)	\$ 7,500
Aluminum used to make products	\$ 175,000
Assembly-line worker wages	\$ 142,000
Salaries of salespeople	\$ 74,000

Product costs for Winner's Sporting Equipment totaled

A) \$724,000.

B) \$744,500.

C) \$612,000.

D) \$806,500.

Answer: B

Explanation: B) Calculations: \$ 23,000 + 67,000 + 2,000 + 13,000 + 99,000 + 151,000 + 7,500 + 142,000 + 175,000 + 65,000 = \$ 744,500

Diff: 3

LO: 2-4

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

146) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	\$ 151,000
Heating and lighting costs for factory	\$ 65,000
Factory janitor wages	\$ 67,000
Costs of shipping to customers	\$ 11,000
Lubricants used in factory equipment	\$ 2,000
Lighting costs for sales office	\$ 20,000
Depreciation on factory equipment	\$ 23,000
Office supplies for sales office	\$ 6,000
Insurance costs for factory	\$ 13,000
Maintenance worker wages	\$ 99,000
Freight-in (on plastics)	\$ 7,500
Aluminum used to make products	\$ 175,000
Assembly-line worker wages	\$ 142,000
Salaries of salespeople	\$ 74,000

Period costs for Winner's Sporting Equipment totaled

- A) \$91,000.
- B) \$37,000.
- C) \$188,000.
- D) \$111,000.

Answer: D

Explanation: D) Calculations: \$ 11,000 + 20,000 + 6,000 + 74,000 = \$ 111,000

Diff: 23

LO: 2-4

EOC: E2-21A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

147) ABC Company makes wooden furniture. Identify each of the following as either an inventoriable product cost or a period cost. If it is an inventoriable product cost, classify it as direct materials, direct labor, or manufacturing overhead.

- A. \_\_\_\_\_ Insurance on the plant building
- B. \_\_\_\_\_ Cost of shipping the furniture to the customers
- C. \_\_\_\_\_ Assembly line workers' wages
- D. \_\_\_\_\_ Depreciation on plant equipment
- E. \_\_\_\_\_ Salesmen's salaries
- F. \_\_\_\_\_ Cost of various types of wood
- G. \_\_\_\_\_ Insurance on delivery trucks
- H. \_\_\_\_\_ Plant forklift operator's salary

Answer:

- A. Inventoriable product cost, manufacturing overhead
- B. Period cost
- C. Inventoriable product cost, direct labor
- D. Inventoriable product cost, manufacturing overhead
- E. Period cost
- F. Inventoriable product cost, direct materials
- G. Period cost
- H. Inventoriable product cost, manufacturing overhead

Diff: 3

LO: 2-4

EOC: S2-7

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

148) Indicate whether each of the following costs is a product cost or a period cost. Assume a manufacturer.

- A) \_\_\_\_\_ direct materials used in factory
- B) \_\_\_\_\_ factory utilities
- C) \_\_\_\_\_ salespersons' commissions
- D) \_\_\_\_\_ salary of plant manager
- E) \_\_\_\_\_ indirect materials used in factory
- F) \_\_\_\_\_ depreciation expense on store equipment
- G) \_\_\_\_\_ indirect labor incurred in factory
- H) \_\_\_\_\_ advertising expense
- I) \_\_\_\_\_ direct labor incurred in factory
- J) \_\_\_\_\_ factory machinery repairs and maintenance
- K) \_\_\_\_\_ depreciation expense on factory machinery
- L) \_\_\_\_\_ supplies used in store
- M) \_\_\_\_\_ plant insurance expired

Answer:

- A) product
- B) product
- C) period
- D) product
- E) product
- F) period
- G) product
- H) period
- I) product
- J) product
- K) product
- L) period
- M) product

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

149) Product costs and period costs receive similar treatment when presented in the financial statements.

Answer: FALSE

Diff: 2

LO: 2-5

EOC: S2-12

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



150) The income statements of manufacturing companies are more complex than those of service or merchandising companies.

Answer: TRUE

Diff: 2

LO: 2-5

EOC: S2-12

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: FALSE

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

152) Service companies have the most complex accounting with regard to the income statement.

Answer: FALSE

Diff: 2

LO: 2-5

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: FALSE

Diff: 1

LO: 2-5

EOC: S2-2

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

155) Which of the following items is **not** used when calculating the cost of goods manufactured?

- A) Direct materials used
- B) Direct labor
- C) Salesperson salaries
- D) Manufacturing overhead

Answer: C

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

156) Before operating income can be determined for a manufacturer, which of the following is calculated?

- A) Cost of goods available for sale
- B) Cost of goods sold
- C) Cost of goods manufactured
- D) All of the above

Answer: D

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

157) The only difference in the balance sheets of various types of businesses (for example, manufacturing vs. service) is

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

Answer: B

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

158) The balance sheet of a service company would include which of the following?

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

Answer: C

Diff: 1

LO: 2-5

EOC: S2-1

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

159) The income statement of a retailer would include which of the following?

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

Answer: A

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

160) The income statements for *both* a merchandiser and manufacturer would include which of the following?

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

Answer: A

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: B

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

162) Tuity Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,000
Operating expenses	80,000
Beginning inventory	12,000
Ending inventory	18,000
Sales revenue	300,000

What is the cost of goods available for sale?

- A) \$140,000
- B) \$152,000
- C) \$80,000
- D) \$134,000

Answer: B

Explanation: B) Calculations: Beginning Inventory \$ 12,000 + Purchases 140,000 = Goods Available \$152,000

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

163) Tuity Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,000
Operating expenses	80,000
Beginning inventory	12,000
Ending inventory	18,000
Sales revenue	300,000

What is the cost of goods sold for the year?

- A) \$152,000
- B) \$134,000
- C) \$140,000
- D) \$80,000

Answer: B

Explanation: B) Calculations: Beginning Inventory \$ 12,000 + Purchases 140,000 = Goods Available \$ 152,000 - Ending Inventory 18,000 = 134,000

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

164) Tuity Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,000
Operating expenses	80,000
Beginning inventory	12,000
Ending inventory	18,000
Sales revenue	300,000

What is the gross profit for the year?

- A) \$160,000
- B) \$300,000
- C) \$80,000
- D) \$166,000

Answer: D

Explanation: D) Calculations: Beg Inv \$ 12,000 + Purchases 140,000 = Goods available 152,000 - ending inventory 18,000 = Cost of Goods Sold \$134,000. Now Sales 300,000 - CGS 134,000 = Gross Profit \$ 166,000

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

165) Chicago Steel's operating activities for the year are listed below.

Beginning inventory	\$ 1,000,000
Ending inventory	\$ 350,000
Purchases	\$ 750,000
Sales revenue	\$ 1,500,000
Operating expenses	\$ 700,000

What is the cost of goods available for sale?

- A) \$1,400,000
- B) \$750,000
- C) \$50,000
- D) \$1,750,000

Answer: D

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

166) Chicago Steel's operating activities for the year are listed below.

Beginning inventory	\$ 1,000,000
Ending inventory	\$ 350,000
Purchases	\$ 750,000
Sales revenue	\$ 1,500,000
Operating expenses	\$ 700,000

What is the cost of goods sold for the year?

- A) \$1,400,000
- B) \$750,000
- C) \$50,000
- D) \$1,750,000

Answer: A

Explanation: A) Calculations: Beginning Inventory \$ 1,000,000 + Purchases 750,000 = Goods Available \$1,750,000 - Ending Inventory 350,000 = 1,400,000

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

167) Chicago Steel's operating activities for the year are listed below.

Beginning inventory	\$ 1,000,000
Ending inventory	\$ 350,000
Purchases	\$ 750,000
Sales revenue	\$ 1,500,000
Operating expenses	\$ 700,000

What is the gross profit for the year?

- A) \$50,000
- B) \$750,000
- C) \$1,500,000
- D) \$100,000

Answer: D

Explanation: D) Calculations: Beginning Inventory \$ 1,000,000 + Purchases 750,000 = Goods Available \$1,750,000 - Ending Inventory 350,000 = CGS 1,400,000. Now Sales 1,500,000 - CGS 1,400,000 = Gross Profit \$100,000

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

168) Challenge Tennis & Recreation's operating activities for the year are listed below.

Purchases	\$174,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	37,000
Sales revenue	333,000

What is the cost of goods available for sale?

- A) \$164,000
- B) \$201,000
- C) \$97,000
- D) \$174,000

Answer: B

Explanation: B) Calculations: \$ 27,000 + 174,000 = \$201,000

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

169) Challenge Tennis & Recreation's operating activities for the year are listed below.

Purchases	\$174,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	37,000
Sales revenue	333,000

What is the cost of goods sold for the year?

- A) \$201,000
- B) \$164,000
- C) \$174,000
- D) \$97,000

Answer: B

Explanation: B) Calculations:  $\$ 27,000 + 174,000 = 201,000 - 37,000 = \$164,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

170) Challenge Tennis & Recreation's operating activities for the year are listed below.

Purchases	\$174,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	37,000
Sales revenue	333,000

What is the gross profit for the year?

- A) \$159,000
- B) \$333,000
- C) \$97,000
- D) \$169,000

Answer: D

Explanation: D) Calculations:  $\$ 27,000 + 174,000 = 201,000 - 37,000 = \$164,000$ . Then  $\$ 333,000 - 164,000 = \$ 169,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



171) In addition to cost of goods manufactured, which of the following is needed to compute the cost of goods sold for a manufacturer?

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

Answer: D

Diff: 23

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: D

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

173) Lots of Stuff Company reports the following data for its first year of operation.

Cost of goods manufactured	\$455,000
Work in process inventory, beginning	0
Work in process inventory, ending	140,000
Direct materials used	110,000
Manufacturing overhead	185,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,000

What are the total manufacturing costs?

- A) \$455,000
- B) \$595,000
- C) \$750,000
- D) \$520,000

Answer: B

Explanation: B) Calculations:  $\$455,000 + 140,000 = \$595,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

174) Lots of Stuff Company reports the following data for its first year of operation.

Cost of goods manufactured	\$455,000
Work in process inventory, beginning	0
Work in process inventory, ending	140,000
Direct materials used	110,000
Manufacturing overhead	185,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,000

What is the cost of goods sold?

- A) \$365,000
- B) \$455,000
- C) \$750,000
- D) \$505,000

Answer: A

Explanation: A) Calculations:  $\$455,000 - 90,000 = \$365,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

175) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	\$710,000
Cost of goods manufactured	455,000
Finished goods inventory, ending	190,000
Finished goods inventory, beginning	0
Manufacturing overhead	100,000
Work in process inventory, beginning	0
Work in process inventory, ending	130,000

What are the total manufacturing costs?

- A) \$945,000
- B) \$585,000
- C) \$1,265,000
- D) \$455,000

Answer: B

Explanation: B) Calculations:  $\$455,000 + 130,000 = \$585,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

176) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	\$710,000
Cost of goods manufactured	455,000
Finished goods inventory, ending	190,000
Manufacturing overhead	100,000
Finished goods inventory, beginning	0
Work in process inventory, beginning	0
Work in process inventory, ending	130,000

What is the cost of goods sold?

- A) \$395,000
- B) \$455,000
- C) \$265,000
- D) \$1,265,000

Answer: C

Explanation: C) Calculations:  $\$455,000 - 190,000 = \$265,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

177) Fit Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	\$650,000
Work in process inventory, beginning	0
Work in process inventory, ending	90,000
Direct materials used	85,000
Manufacturing overhead	100,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,000

What are the total manufacturing costs?

- A) \$650,000
- B) \$835,000
- C) \$740,000
- D) \$675,000

Answer: C

Explanation: C) Calculations: \$ 650,000 + 90,000 = \$740,000

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

178) Fit Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	\$650,000
Work in process inventory, beginning	0
Work in process inventory, ending	90,000
Direct materials used	85,000
Manufacturing overhead	100,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,000

What is the cost of goods sold?

- A) \$650,000
- B) \$835,000
- C) \$580,000
- D) \$670,000

Answer: C

Explanation: C) Calculations: \$650,000 - 70,000 = \$580,000

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

179) Tall Timbers reports the following data for its first year of operation.

Work in process inventory, beginning	\$ 0
Work in process inventory, ending	50,000
Manufacturing overhead	25,000
Direct materials used	7,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,000
Cost of goods manufactured	85,000

What are the total manufacturing costs?

- A) \$47,000
- B) \$135,000
- C) \$85,000
- D) \$117,000

Answer: B

Explanation: B) Calculations:  $\$85,000 + 50,000 = \$135,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

180) Tall Timbers reports the following data for its first year of operation.

Work in process inventory, beginning	\$ 0
Work in process inventory, ending	50,000
Manufacturing overhead	25,000
Direct materials used	7,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,000
Cost of goods manufactured	85,000

What is the cost of goods sold?

- A) \$65,000
- B) \$85,000
- C) \$117,000
- D) \$115,000

Answer: A

Explanation: A) Calculations:  $\$85,000 - 20,000 = \$65,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

181) Direct labor for a company was \$145,000; manufacturing overhead was \$300,000; and direct materials were \$270,000. Conversion costs would total

- A) \$570,000.
- B) \$715,000.
- C) \$415,000.
- D) \$445,000.

Answer: D

Explanation: D) Calculations:  $\$300,000 + 145,000 = \$445,000$

Diff: 2

LO: 2-5

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

182) Direct materials for a company were \$500,000; manufacturing overhead was \$250,000; and direct labor was \$770,000. Conversion costs would total

- A) \$1,020,000.
- B) \$1,270,000.
- C) \$1,520,000.
- D) \$750,000.

Answer: A

Explanation: A) Calculations:  $\$770,000 + 250,000 = \$1,020,000$

Diff: 2

LO: 2-5

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

183) Direct labor for a company was \$145,000; manufacturing overhead was \$300,000; and direct materials were \$270,000. Prime costs would total

- A) \$715,000.
- B) \$445,000.
- C) \$415,000.
- D) \$570,000.

Answer: C

Explanation: C) Calculations:  $\$145,000 + 270,000 = \$415,000$

Diff: 2

LO: 2-5

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

184) Direct materials for a company were \$500,000; manufacturing overhead was \$250,000; and direct labor was \$770,000. Prime costs would total

- A) \$1,020,000.
- B) \$1,270,000.
- C) \$1,520,000.
- D) \$750,000.

Answer: B

Explanation: B) Calculations: \$ 500,000 + 770,000 = \$1,270,000

Diff: 2

LO: 2-5

EOC: E2-21A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

185) Page's sells books. The following information summarizes the company's operating expenses for the year:

Purchases	\$ 105,000
Operating expenses	\$ 53,000
Beginning merchandise inventory	\$ 14,000
Ending merchandise inventory	\$ 11,000
Sales revenue	\$ 170,000

What is cost of goods available for sale?

- A) \$116,000
- B) \$65,000
- C) \$119,000
- D) \$108,000

Answer: C

Explanation: C) Calculations: \$ 105,000 + 14,000 = \$119,000

Diff: 32

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

186) Page's sells books. The following information summarizes the company's operating expenses for the year:

Purchases	\$ 105,000
Operating expenses	\$ 53,000
Beginning merchandise inventory	\$ 14,000
Ending merchandise inventory	\$ 11,000
Sales revenue	\$ 170,000

What is operating income?

- A) \$12,000
- B) \$102,000
- C) \$108,000
- D) \$9,000

Answer: D

Explanation: D) Calculations:  $\$105,000 + 14,000 = 119,000 - 11,000 = 108,000$ ; next  $\$ 170,000 - 108,000 = 62,000 - 53,000 = \$ 9,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

187) Page's sells books. The following information summarizes the company's operating expenses for the year:

Purchases	\$ 105,000
Operating expenses	\$ 53,000
Beginning merchandise inventory	\$ 14,000
Ending merchandise inventory	\$ 11,000
Sales revenue	\$ 170,000

What is gross profit?

- A) \$62,000
- B) \$9,000
- C) \$65,000
- D) \$117,000

Answer: A

Explanation: A) Calculations:  $\$105,000 + 14,000 = 119,000 - 11,000 = \$108,000$ . Next  $\$ 170,000 - 108,000 = 62,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



188) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,500
Sales commissions	10,000
Sales revenue	164,000
Purchases of merchandise	85,000
January 1 inventory	27,000
Rent for store	13,500
December 31 inventory	23,000

What is cost of goods sold?

- A) \$85,000
- B) \$89,000
- C) \$108,000
- D) \$112,000

Answer: B

Explanation: B) Calculations:  $\$27,000 + 85,000 = 112,000 - 23,000 = \$89,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

189) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,500
Sales commissions	10,000
Sales revenue	164,000
Purchases of merchandise	85,000
January 1 inventory	27,000
Rent for store	13,500
December 31 inventory	23,000

What is operating income?

A) \$154,500

B) \$56,000

C) \$42,000

D) \$46,000

Answer: C

Explanation: C) Calculations: \$ 164,000 - 89,000 = 75,000 - 9,500 - 10,000 - 13,500 = 42,000

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

190) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,500
Sales commissions	10,000
Sales revenue	164,000
Purchases of merchandise	85,000
January 1 inventory	27,000
Rent for store	13,500
December 31 inventory	23,000

What is gross profit?

A) \$75,000

B) \$42,000

C) \$83,000

D) \$56,000

Answer: A

Explanation: A) Calculations: \$ 164,000 - 89,000 = 75,000

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

191) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,500
Sales commissions	10,000
Sales revenue	164,000
Purchases of merchandise	85,000
January 1 inventory	27,000
Rent for store	13,500
December 31 inventory	23,000

What is total operating expense?

A) \$33,000

B) \$19,500

C) \$23,500

D) \$23,000

Answer: A

Explanation: A) Calculations:  $\$9,500 + 10,000 + 13,500 = \$33,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

192) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$ 7,000
Sales revenue	\$ 25,000
Sales commissions	\$ 1,000
Rent for office	\$ 2,000
Utilities for the office	\$ 1,500
Purchases	\$ 6,000
Ending inventory	\$ 5,000

What is cost of goods sold?

- A) \$9,500
- B) \$6,000
- C) \$8,000
- D) \$13,000

Answer: C

Explanation: C) Calculations:  $\$7,000 + 6,000 = 13,000 - 5,000 = \$8,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

193) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$ 7,000
Sales revenue	\$ 25,000
Sales commissions	\$ 1,000
Rent for office	\$ 2,000
Utilities for the office	\$ 1,500
Purchases	\$ 6,000
Ending inventory	\$ 5,000

What is operating income?

A) \$12,500

B) \$ 23,500

C) \$ 15,500

D) \$ 14,500

Answer: A

Explanation: A) Calculations:  $\$ 25,000 - 8,000 = 13,000 - 1,500 - 1,000 - 2,000 = 12,500$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

194) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$ 7,000
Sales revenue	\$ 25,000
Sales commissions	\$ 1,000
Rent for office	\$ 2,000
Utilities for the office	\$ 1,500
Purchases	\$ 6,000
Ending inventory	\$ 5,000

What is gross profit?

A) \$15,500

B) \$21,000

C) \$17,000

D) \$12,500

Answer: C

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

195) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$ 7,000
Sales revenue	\$ 25,000
Sales commissions	\$ 1,000
Rent for office	\$ 2,000
Utilities for the office	\$ 1,500
Purchases	\$ 6,000
Ending inventory	\$ 5,000

What is total operating expense?

- A) \$3,000
- B) \$2,500
- C) \$3,500
- D) \$4,500

Answer: D

Explanation: D) Calculations:  $\$1,000 + \$2,000 + \$1,500 = \$4,500$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

196) Porches, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,000.

Ending merchandise inventory on December 31 was \$35,000.

Purchases during the year were \$92,000.

Selling and administrative expenses were \$75,000.

Sales for year were \$262,000.

What was cost of goods sold?

- A) \$160,000
- B) \$ 94,000
- C) \$ 90,000
- D) \$ 95,000

Answer: C

Explanation: C) Calculations:  $\$92,000 + \$33,000 = \$125,000 - \$35,000 = \$90,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

197) Porches, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,000.

Ending merchandise inventory on December 31 was \$35,000.

Purchases during the year were \$92,000.

Selling and administrative expenses were \$75,000.

Sales for year were \$262,000.

What was gross profit?

A) \$(165,000)

B) \$170,000

C) \$187,000

D) \$172,000

Answer: D

Explanation: D) Calculations:  $\$92,000 + \$33,000 = \$125,000$  -  $\$35,000 = \$90,000$ . Next  $\$262,000 - \$90,000 = \$172,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

198) Porches, Inc., sells lawn furniture. Selected financial information for the most recent year follows:

Beginning merchandise inventory on January 1 was \$33,000.

Ending merchandise inventory on December 31 was \$35,000.

Purchases during the year were \$92,000.

Selling and administrative expenses were \$75,000.

Sales for year were \$262,000.

What was operating income for the year?

A) \$90,000

B) \$97,000

C) \$95,000

D) \$93,000

Answer: B

Explanation: B) Calculations:  $\$92,000 + \$33,000 = \$125,000$  -  $\$35,000 = \$90,000$ . Next  $\$262,000 - \$90,000 = \$172,000$  -  $\$75,000 = \$97,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



199) Porches, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,000.

Ending merchandise inventory on December 31 was \$35,000.

Purchases during the year were \$92,000.

Selling and administrative expenses were \$75,000.

Sales for year were \$262,000.

What was the value of goods available for sale?

A) \$125,000

B) \$127,000

C) \$170,000

D) \$ 90,000

Answer: A

Explanation: A) Calculations:  $\$92,000 + \$33,000 = \$125,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Sales revenue	\$ 4,000
Purchases of direct materials	\$ 400
Direct labor	\$ 450
Manufacturing overhead	\$ 620
Operating expenses	\$ 650
Beginning raw materials inventory	\$ 200
Ending raw materials inventory	\$ 180
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 410
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 200

What was direct materials used?

- A) \$600
- B) \$380
- C) \$420
- D) \$400

Answer: C

Explanation: C) Calculations:  $\$ 200 + 400 = 600 - 180 = \$420$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Sales revenue	\$ 4,000
Purchases of direct materials	\$ 400
Direct labor	\$ 450
Manufacturing overhead	\$ 620
Operating expenses	\$ 650
Beginning raw materials inventory	\$ 200
Ending raw materials inventory	\$ 180
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 410
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 200

What was cost of goods manufactured?

- A) \$1,580
- B) \$1,380
- C) \$1,400
- D) \$1,490

Answer: C

Explanation: C) Calculations:  $\$420 + 450 + 620 = 1,490 + 320 - 410 = \$1,400$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Sales revenue	\$ 4,000
Purchases of direct materials	\$ 400
Direct labor	\$ 450
Manufacturing overhead	\$ 620
Operating expenses	\$ 650
Beginning raw materials inventory	\$ 200
Ending raw materials inventory	\$ 180
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 410
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 200

What was cost of goods sold?

- A) \$1,450
- B) \$1,350
- C) \$1,470
- D) \$ 790

Answer: A

Explanation: A) Calculations:  $\$ 250 + 1,400 - 200 = \$1,450$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Sales revenue	\$ 4,000
Purchases of direct materials	\$ 400
Direct labor	\$ 450
Manufacturing overhead	\$ 620
Operating expenses	\$ 650
Beginning raw materials inventory	\$ 200
Ending raw materials inventory	\$ 180
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 410
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 200

What was operating income?

- A) \$2,530
- B) \$4,000
- C) \$3,350
- D) \$1,900

Answer: D

Explanation: D) Calculations:  $\$4,000 - 1,450 = 2,550 - 650 = \$1,900$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

204) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$ 300
Ending raw materials inventory	\$ 180
Direct labor	\$ 250
Operating expenses	\$ 650
Purchases of direct materials	\$ 350
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 600
Sales revenue	\$ 4,500
Manufacturing overhead	\$ 720
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 250

What was direct materials used?

- A) \$650
- B) \$470
- C) \$230
- D) \$350

Answer: B

Explanation: B) Calculations:  $\$ 300 + 350 = 650 - 180 = \$470$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

205) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$ 300
Ending raw materials inventory	\$ 180
Direct labor	\$ 250
Operating expenses	\$ 650
Purchases of direct materials	\$ 350
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 600
Sales revenue	\$ 4,500
Manufacturing overhead	\$ 720
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 250

What was cost of goods manufactured?

- A) \$1,440
- B) \$1,040
- C) \$1,720
- D) \$1,160

Answer: D

Explanation: D) Calculations:  $\$300 + 350 - 180 = \$470 + 320 + 250 + 720 - 600 = \$1,160$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

206) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$ 300
Ending raw materials inventory	\$ 180
Direct labor	\$ 250
Operating expenses	\$ 650
Purchases of direct materials	\$ 350
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 600
Sales revenue	\$ 4,500
Manufacturing overhead	\$ 720
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 250

What was cost of goods sold?

- A) \$1,030
- B) \$1,160
- C) \$ 790
- D) \$1,320

Answer: B

Explanation: B) Calculations:  $\$ 250 + 1,160 - 250 = \$1,160$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



207) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$ 300
Ending raw materials inventory	\$ 180
Direct labor	\$ 250
Operating expenses	\$ 650
Purchases of direct materials	\$ 350
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 600
Sales revenue	\$ 4,500
Manufacturing overhead	\$ 720
Beginning finished goods inventory	\$ 250
Ending finished goods inventory	\$ 250

What was operating income?

- A) \$3,850
- B) \$4,500
- C) \$3,180
- D) \$2,690

Answer: D

Explanation: D) Calculations:  $\$4,500 - 1,160 = 3,340 - 650 = \$2,690$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Beginning work in process inventory	\$ 240
Cost of goods manufactured	\$ 400
Direct materials used	\$ 170
Direct labor	\$ 90
Ending work in process inventory	\$ 140

What was manufacturing overhead for the quarter?

- A) \$260
- B) \$ 40
- C) \$500
- D) \$140

Answer: B

Explanation: B) Calculations:  $\$400 + 140 = 540 - 240 - 90 - 170 = 40$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Direct labor	\$ 500
Beginning work in process inventory	\$ 320
Ending work in process inventory	\$ 330
Cost of goods manufactured	\$ 1,560
Manufacturing overhead	\$ 820

What was direct materials used for the quarter?

- A) \$ 250
- B) \$ 490
- C) \$ 1,550
- D) \$ 820

Answer: A

Explanation: A) Calculations:  $\$1,560 + 330 - 320 = 1,570 - 500 - 820 = \$250$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Operating expenses	\$ 600
Gross profit	\$ 2,390
Sales revenue	\$ 3,000
Ending finished goods inventory	\$ 200
Cost of goods manufactured	\$ 1,560

What was cost of goods sold?

- A) \$ 1,160
- B) \$ 610
- C) \$ 960
- D) \$ 840

Answer: B

Explanation: B) Calculations:  $\$ 3,000 - 2,390 = \$610$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Operating expenses	\$ 700
Gross profit	\$ 2,390
Sales revenue	\$ 4,000
Ending finished goods inventory	\$ 300
Cost of goods manufactured	\$ 1,200

What was the beginning finished goods inventory?

- A) \$ 2,100
- B) \$ 500
- C) \$ 710
- D) \$ 800

Answer: C

Explanation: C) Calculations:  $\$ 4,000 - 2,390 = \$ 1,610 + 300 = 1,910 - 1,200 = \$710$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Sales revenue	\$ 4,000
Beginning raw materials inventory	\$ 200
Direct materials used	\$ 400
Purchases of direct materials	\$ 350
Direct labor	\$ 450
Manufacturing overhead	\$ 620

What was the ending raw materials inventory?

- A) \$ 400
- B) \$ 770
- C) \$ 150
- D) \$ 750

Answer: C

Explanation: C) Calculations:  $\$ 200 + 350 = 550 - 400 = 150$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Ending work in process inventory	\$ 650
Cost of goods manufactured	\$ 800
Direct labor	\$ 400
Direct materials used	\$ 170
Beginning work in process inventory	\$ 300

What was manufacturing overhead for the quarter?

- A) \$230
- B) \$450
- C) \$570
- D) \$580

Answer: D

Explanation: D) Calculations:  $\$800 + 650 = 1,450 - 300 - 400 - 170 = 580$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Ending work in process inventory	\$ 400
Manufacturing overhead	\$ 800
Cost of goods manufactured	\$1,350
Beginning work in process inventory	\$ 330
Direct labor	\$ 460

What was direct materials used for the quarter?

- A) \$790
- B) \$1,280
- C) \$390
- D) \$140

Answer: D

Explanation: D) Calculations:  $\$1,350 + 400 - 330 = 1420 - 460 - 820 = \$140$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Cost of goods manufactured	\$ 1,600
Gross profit	\$ 3,000
Operating expenses	\$ 500
Ending finished goods inventory	\$ 350
Sales revenue	\$ 4,000

What was cost of goods sold?

- A) \$1,100
- B) \$1,900
- C) \$1,450
- D) \$1,000

Answer: D

Explanation: D) Calculations:  $\$4,000 - 3,000 = \$1,000$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Cost of goods manufactured	\$ 1,500
Gross profit	\$ 2,600
Operating expenses	\$ 4,000
Ending finished goods inventory	\$ 400
Sales revenue	\$ 6,000

What was the beginning finished goods inventory?

- A) \$2,300
- B) \$500
- C) \$2,100
- D) \$2,500

Answer: A

Explanation: A) Calculations:  $\$6,000 - 2,600 = \$3,400 + 400 = 3,800 - 1,500 = \$2,300$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Purchases of direct materials	\$ 250
Sales revenue	\$ 3,500
Manufacturing overhead	\$ 430
Direct materials used	\$ 350
Direct labor	\$ 200
Beginning raw materials inventory	\$ 190

What was the ending raw materials inventory?

- A) \$600
- B) \$350
- C) \$90
- D) \$490

Answer: C

Explanation: C) Calculations:  $\$190 + 250 = 440 - 350 = 90$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

You may use more than one letter for each answer.

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

Answer:

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

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

219) Compute the missing amounts.

	Miami Company	Orlando Company
Sales	\$ 300,000	(D)
Cost of Goods Sold		
Beginning Inventory	(A)	65,000
Purchases and Freight-In	119,000	(E)
Cost of goods available for sale	(B)	192,000
Ending inventory	5,000	3,000
Cost of goods sold	115,000	(F)
Gross Margin	185,000	124,000
Selling and Administrative Expenses	(C)	90,000
Operating Income	32,000	(G)

Answer: A)  $120,000 - 119,000 = 1,000$

B)  $115,000 + 5,000 = 120,000$

C)  $185,000 - 32,000 = 153,000$

D)  $124,000 + 189,000 = 313,000$

E)  $192,000 - 65,000 = 127,000$

F)  $192,000 - 3,000 = 189,000$

G)  $124,000 - 90,000 = 34,000$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



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

Merchandise inventory, beginning	\$ 12,000
Merchandise inventory, ending	6,000
Purchases	97,000
Operating expenses	62,000
Sales revenue	195,000

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

Answer:

Kitch Company			
Income Statement			
Year Ended December 31			
Sales revenue		\$ 195,000	
Cost of good sold:			
Beginning inventory	\$ 12,000		
Purchases	97,000		
Cost of goods available for sale	109,000		
Ending inventory	6,000		
Cost of good sold:		103,000	
Gross profit		\$ 92,000	
Selling and administrative expenses		62,000	
Operating income		\$ 30,000	

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Utilities for store	7,000
Rent for store	6,500
Sales commissions	2,500
Purchases of merchandise	65,000
Inventory, ending	21,500
Inventory, beginning	28,000
Sales revenue	120,000

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

Answer:

Eschenbach Company		
Income Statement		
Year Ended December 31		
Sales revenue		\$ 120,000
Cost of goods sold:		
Beginning inventory	\$ 28,000	
Purchases of merchandise	65,000	
Cost of goods available for sale	93,000	
Ending inventory	21,500	
Cost of goods sold:		71,500
Gross profit		\$ 48,500
Operating expenses:		
Utilities expense	\$ 7,000	
Rent expense	6,500	
Sales commissions expense	2,500	16,000
Operating income		\$ 32,500

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

222) North Pacific Company used \$65,000 of direct materials and incurred \$43,000 of direct labor costs during 2011. Indirect labor amounted to \$1,700 while indirect materials used totaled \$1,800. Other operating costs pertaining to the factory included utilities of \$4,300; maintenance of \$6,800; supplies of \$1,500; depreciation expense of \$8,900; and property taxes of \$2,400. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$6,400 balance and ended the year with a \$7800 balance.

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

Answer:

North Pacific Company			
Schedule of Cost of Goods Manufactured			
Year Ended December 31			
Beginning work in process inventory			\$ 6,400
Add:			
Direct materials used		\$ 65,000	
Direct labor		43,000	
Manufacturing overhead:			
Indirect labor	\$ 1,700		
Indirect materials	1,800		
Utilities	4,300		
Maintenance	6,800		
Supplies	1,500		
Depreciation expense	8,900		
Property taxes	2,400	27,400	
Total manufacturing costs incurred during the year			135,400
Total manufacturing costs to account for			141,800
Less: Ending work in process inventory			(7,800)
Cost of goods manufactured			<u>\$134,000</u>

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

223) The following information is available for the Bower Corporation for last year:

- Raw materials inventory decreased \$4,000 from the beginning of the year to the end of the year.
- Raw materials inventory on December 31 (end of year) was 50% of raw materials inventory on January 1 (beginning of year).
- Beginning work in process inventory was \$145,000.
- Ending finished goods inventory was \$65,000.
- Purchases of direct materials were \$154,700.
- Manufacturing overhead was 50% of the cost of direct labor.
- Total manufacturing costs incurred were \$246,400, 80% of cost of goods manufactured and \$156,000 less than cost of goods sold.

Compute:

- a) finished goods inventory on January 1 (beginning of year)
- b) work in process inventory on December 31 (end of year)
- c) direct labor incurred
- d) manufacturing overhead incurred
- e) direct materials used
- f) raw materials inventory on January 1 (beginning of year)
- g) raw materials inventory on December 31 (end of year)

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

Answer:

a) cost of goods sold = \$246,400 + \$156,000 = \$402,400  
 $\$402,400 + \$65,000 - \$308,000 = \$159,400$

b) cost of goods manufactured =  $\$246,400 / .80 = \$308,000$   
 $\$246,400 + \$145,000 - \$308,000 = \$83,400$

c)  $\$158,700 + x + 0.5x = \$246,400$   
 $1.5x = \$87,700$   
 $x = \$58,467$

d)  $\$58,467 \times .5 = \$29,233$

e)  $\$8,000 + \$154,700 - \$4,000 = \$158,700$

f) X = January 1 materials inventory  
 $\$4,000 = .5X$   
 $X = \$8,000$

g)  $\$8,000 - \$4,000 = \$4,000$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Raw materials inventory — beg. of year	\$52,000	Depreciation — plant & equipment	\$28,000
Raw materials inventory — end of year	46,000	Repairs and maintenance — plant	4,000
Work in process inv. — beg. of year	110,000	Insurance on plant	12,000
Work in process inv. — end of year	85,000	General and administration exp.	29,000
Finished goods inv. — beg. of year	26,000	Indirect labor	27,000
Finished goods inv. — end of year	54,000	Direct labor	178,000
Purchase of direct materials	37,000	Marketing expenses	62,000

Answer:

Excellent Manufacturing Company			
Schedule of Cost of Goods Manufactured			
Beginning work in process inventory			\$110,000
Add: Direct Materials Used			
Beginning raw materials inventory	\$52,000		
Purchase of direct materials	37,000		
Available for use	89,000		
Ending raw materials inventory	(46,000)	\$43,000	
Direct Labor		178,000	
Manufacturing overhead:			
Indirect labor	27,000		
Insurance on plant	12,000		
Depreciation — plant & equipment	28,000		
Repairs and maintenance - plant	4,000	71,000	
Total manufacturing costs incurred during the year			292,000
Total manufacturing costs to account for			402,000
Less: Ending work in process inventory			(85,000)
Cost of goods manufactured			317,000

Excellent Manufacturing Company	
Schedule of Cost of Goods Sold	
Beginning finished goods inventory	\$ 26,000
Cost of goods manufactured*	317,000
Cost of goods available for sale	343,000
Ending finished goods inventory	(54,000)
Cost of good sold	\$ 289,000
*From schedule of cost of goods manufactured	

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

225) Over the long-term all costs are uncontrollable.

Answer: FALSE

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

227) Decision making is guided only by differential costs.

Answer: FALSE

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

228) Irrelevant factors should not be considered when making decisions.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

229) You are trying to decide whether or not to sell back your accounting textbook at the end of the class. The cost you paid for the book is not relevant to your decision.

Answer: TRUE

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

230) Sunk costs are irrelevant to the decision making process.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

231) Costs that remain the same among alternatives are

A) sunk costs.

B) irrelevant costs.

C) controllable costs.

D) uncontrollable costs.

Answer: B

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

232) Which of the following types of information differs between alternatives and can affect the future?

A) Historical

B) Irrelevant

C) Relevant

D) Predictable

Answer: C

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

233) Which of the following represents a sunk cost?

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

Answer: B

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: D

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

235) When deciding to buy a new computer, all of the following should be considered **except** for the

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

Answer: B

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



236) When making a decision to buy a new computer, all of the following should be considered **except**

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

Answer: D

Diff: 2

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: A

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

- A) The original purchase price of the current machinery
- B) The additional labor required to run the new equipment
- C) The accumulative repairs costs of the current machinery over the years
- D) The cost of raw materials

Answer: B

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: C

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

240) A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. All of the following costs would be relevant to its decision **except**

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

Answer: C

Diff: 1

LO: 2-6

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

241) Label each item below as relevant or irrelevant in making a decision.

- A. \_\_\_\_ cost of insurance on a new vehicle when evaluating purchase of new vehicle
- B. \_\_\_\_ cost of roof repair made on rental property last year when evaluating sale of rental property
- C. \_\_\_\_ original cost of old equipment that is being evaluated for replacement
- D. \_\_\_\_ cost of new equipment that is under evaluation to replace used equipment
- E. \_\_\_\_ accumulated depreciation on old equipment being evaluated for replacement
- F. \_\_\_\_ cost of previous year's insurance policy on old equipment being evaluated for replacement

Answer:

- A. relevant
- B. irrelevant
- C. irrelevant
- D. relevant
- E. irrelevant
- F. irrelevant

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

243) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	F.	Variable costs
B.	Marginal cost	G.	Indirect cost
C.	Average cost	H.	Sunk cost
D.	Conversion costs	I.	Differential cost
E.	Prime costs		

- \_\_\_ The combination of direct materials and direct labor.  
\_\_\_ Costs that change in total in direct proportion to changes in volume.  
\_\_\_ A cost that relates to the cost object, but cannot be traced to it.  
\_\_\_ A cost that has already been incurred.

Answer: E, F, G, H

Diff: 2

LO: 2-1

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

244) Variable costs per unit decrease as production volume increases.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-14

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

245) Fixed costs vary in total over a wide range of activity levels.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-14

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

246) All costs contain both a fixed and a variable portion.

Answer: FALSE

Diff: 2

LO: 2-7

EOC: S2-14

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-14

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-14

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

249) To forecast total costs at a given level of production, management would use which of the following calculations?

- A) Average cost  $\times$  total units predicted
- B) Total fixed cost  $\times$  total units predicted
- C) Total fixed cost + (variable cost per unit  $\times$  total units predicted)
- D) Total fixed cost + variable cost per unit

Answer: C

Diff: 1

LO: 2-7

EOC: P2-46

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

250) Average variable costs

- A) remain the same as production decreases.
- B) remain the same as production increases.
- C) remain the same no matter if production increases or decreases.
- D) go down as production decreases.

Answer: C

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

251) What is the cost of making one more unit called?

- A) Unit cost
- B) Marginal cost
- C) Variable cost
- D) None of the above

Answer: B

Diff: 1

LO: 2-7

EOC: E2-46B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

252) Plowin' Supply plans to make 15,000 tractors at its plant. Fixed costs are \$600,000 and variable costs are \$200 per tractor. What is the average cost per tractor?

- A) \$200
- B) \$75
- C) \$240
- D) \$40

Answer: C

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Answer: C

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

254) An example of a fixed cost for a manufacturer would be which of the following?

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

Answer: B

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

- A) Income Taxes
- B) Machine Repair Expense
- C) Fire Insurance on buildings
- D) Delivery Fuel Expense

Answer: C

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

256) How do variable costs per unit behave?

- A) They decrease as production increases.
- B) They increase as production decreases.
- C) They decrease as production decreases.
- D) They remain the same throughout production levels within the relevant range.

Answer: D

Diff: 3

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

257) How do total variable costs behave?

- A) They decrease as production decreases.
- B) They remain the same throughout production levels within the relevant range.
- C) They decrease as production increases.
- D) They increase as production decreases.

Answer: A

Diff: 3

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

- A) They will decrease as production increases.
- B) They will decrease as production decreases.
- C) They will remain the same throughout production levels within the relevant range.
- D) They will increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

259) How do fixed costs per unit behave?

- A) They remain the same throughout production levels within the relevant range.
- B) They decrease as production decreases.
- C) They increase as production decreases.
- D) They increase as production increases.

Answer: C

Diff: 3

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits



260) Variable costs

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

Answer: A

Diff: 3

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

261) A company has monthly fixed costs of \$112,500. The variable costs are \$6.00 per unit. If the sales price of a unit is \$19.00 and we sell 7,500 units, the company's average fixed costs per unit will be

- A) \$13.00 per unit.
- B) \$6.00 per unit.
- C) \$21.00 per unit.
- D) \$15.00 per unit.

Answer: D

Explanation: D) Calculations:  $112,500 / 7,500 = 15$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

262) A company has monthly fixed costs of \$112,500. The variable costs are \$6.00 per unit. If the sales price of a unit is \$19.00 and we sell 7,500 units, the company's total variable costs will be

- A) \$112,500.
- B) \$45,000.
- C) \$142,500.
- D) \$97,500.

Answer: B

Explanation: B) Calculations:  $7,500 \times \$6.00 = \$45,000$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

263) A company has monthly fixed costs of \$112,500. The variable costs are \$6.00 per unit. If the sales price of a unit is \$19.00 and we sell 7,500 units, the total sales revenue will be

- A) \$97,500.
- B) \$112,500.
- C) \$142,500.
- D) \$(15,000).

Answer: C

Explanation: C) Calculations:  $\$19.00 \times 7,500 = \$142,500$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

264) The sales price of a particular unit is \$19.00. The company plans to sell 7,500 units. The variable costs are \$6.00 per unit and monthly fixed costs are \$112,500. Given this information what is the average fixed cost per unit?

- A) \$6.00 per unit
- B) \$21.00 per unit
- C) \$13.00 per unit
- D) \$15.00 per unit

Answer: D

Explanation: D) Calculations:  $112,500 / 7,500 = 15$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

265) The sales price of a particular unit is \$19.00. The company plans to sell 7,500 units. The variable costs are \$6.00 per unit and monthly fixed costs are \$112,500. Given this information what is the company's total variable cost?

- A) \$45,000
- B) \$112,500
- C) \$142,500
- D) \$97,500

Answer: A

Explanation: A) Calculations:  $7,500 \times \$6.00 = \$45,000$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

266) The sales price of a particular unit is \$19.00. The company plans to sell 7,500 units. The variable costs are \$6.00 per unit and monthly fixed costs are \$112,500. Given this information what is the company's total sales revenue?

- A) \$(15,000)
- B) \$142,500
- C) \$112,500
- D) \$97,500

Answer: B

Explanation: B) Calculations:  $\$19.00 \times 7,500 = \$142,500$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

267) London Plastics has monthly fixed costs of \$84,000, while its variable costs are \$4.00 per unit. If the sales price of a unit is \$15.00 and London Plastics sell 14,000 units, the company's average fixed costs per unit will be

- A) \$6.00 per unit.
- B) \$10.00 per unit.
- C) \$4.00 per unit.
- D) \$11.00 per unit.

Answer: A

Explanation: A) Calculations:  $84,000 / 14,000 = \$6.00$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

268) London Plastics has monthly fixed costs of \$84,000, while its variable costs are \$4.00 per unit. If the sales price of a unit is \$15.00 and London Plastics sell 14,000 units, the company's total variable costs will be

- A) \$154,000.
- B) \$56,000.
- C) \$210,000.
- D) \$84,000.

Answer: B

Explanation: B) Calculations:  $\$4.00 \times 14,000 = \$56,000$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

269) London Plastics has monthly fixed costs of \$84,000, while its variable costs are \$4.00 per unit. If the sales price of a unit is \$15.00 and London Plastics sell 14,000 units, the company's total sales revenue will be

- A) \$154,000.
- B) \$210,000.
- C) \$84,000.
- D) \$70,000.

Answer: B

Explanation: B) Calculations:  $14,000 \times \$15.00 = \$210,000$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

270) London Plastics sells a product for \$15.00 per unit. The product requires \$4.00 per unit in variable costs to produce it. The company plans on selling 12,000 units of this product. If the monthly fixed costs are \$84,000, the company's average fixed costs per unit will be

- A) \$4.00 per unit.
- B) \$7.00 per unit.
- C) \$10.00 per unit.
- D) \$11.00 per unit.

Answer: B

Explanation: B) Calculations:  $84,000 / 12,000 = \$7.00$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

271) London Plastics sells a product for \$15.00 per unit. The product requires \$4.00 per unit in variable costs to produce it. The company plans on selling 12,000 units of this product. If the monthly fixed costs are \$84,000, the company's total variable costs will be

- A) \$184,000.
- B) \$154,000.
- C) \$210,000.
- D) \$48,000.

Answer: D

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

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

272) London Plastics sells a product for \$15.00 per unit. The product requires \$4.00 per unit in variable costs to produce it. The company plans on selling 12,000 units of this product. If the monthly fixed costs are \$84,000, the total sales revenue will be

- A) \$70,000.
- B) \$84,000.
- C) \$154,000.
- D) \$180,000.

Answer: D

Explanation: D) Calculations:  $12,000 \times \$15.00 = \$180,000$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

273) A company has fixed costs of \$60,000 per month. If sales double from 6,000 to 12,000 units during the month, fixed costs in total will

- A) double.
- B) remain the same.
- C) be cut in half.
- D) be none of the above.

Answer: B

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

274) A company produces toy airplanes at a variable cost of \$23 per toy. If 7,000 toys are produced at a total variable cost of \$161,000, the total variable cost at 4,500 toys will be

- A) \$161,000.
- B) \$23.
- C) \$103,500.
- D) \$264,500.

Answer: C

Explanation: C) Calculations:  $4,500 \times \$23.00 = \$103,500$

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

275) Kramer Manufacturing produces blenders. Its total fixed costs are \$30,000. Its variable costs are \$55.00 per blender. As production of blenders increases (within the relevant range), fixed costs will

- A) stay the same per unit.
- B) decrease as production increases.
- C) decrease per unit as production increases.
- D) increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

276) A company's total costs are calculated by

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

Answer: D

Diff: 1

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

277) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	E.	Variable costs
B.	Marginal cost	F.	Indirect cost
C.	Average cost	G.	Sunk cost
D.	Conversion costs	H.	Differential cost

- \_\_\_ The total cost divided by the total volume.
- \_\_\_ The difference in cost between two alternative courses of action.
- \_\_\_ The combination of direct labor and manufacturing overhead costs.
- \_\_\_ The cost of producing one more unit.
- \_\_\_ Costs that can be traced to the cost object.

Answer: C, H, D, B, A

Diff: 2

LO: 2-7

EOC: E2-29A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

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

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

Diff: 2

LO: 2-7

EOC: E2-30A

AACSB: Reflective Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

279) Getting to school for your 8 a.m. class doesn't leave much time for breakfast, and you are quite hungry by the time class ends. It is a long walk to the cafeteria, the lines are long once you get there, and you find yourself having to decide between having breakfast and getting to your next class on time. Many of your friends have expressed the same problem. The administration has agreed to let you set up a table just outside the building where you will sell various snacks for \$1 each. You have agreed to pay the administration \$400 per month and salaries to your friends to run the business will be another \$400 per month. It will cost you 60 cents each to buy the pre-packaged snacks. You believe you can sell 2,500 snack packs per month.

- What are the total fixed costs per month?
- What are the total variable costs per month?
- What is the fixed cost per snack pack?
- What is the variable cost per snack pack?
- What is the average cost per snack pack?
- What is the average profit margin per snack pack?
- Based on your analysis, should you start the snack pack business?

Answer:

- \$800 ( $\$400 + \$400$ )
- \$1,500 ( $60 \text{ cents} \times 2,500 \text{ snack packs}$ )
- 32 cents ( $\$800/2,500 \text{ snack packs}$ )
- 50 cents (given in the problem)
- \$0.82
- \$0.18 ( $\$1 - 50 \text{ cents} - 32 \text{ cents}$ )
- Yes, I will make 18 cents per snack pack and if I sell 2,500 I will make a profit of \$450.

Diff: 2

LO: 2-7

EOC: E2-48B

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits

280) How are average cost and marginal cost computed?

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

Diff: 1

LO: 2-7

EOC: E2-29A

AACSB: Analytical Thinking

Learning Outcome: Define and use cost-volume-profit analysis to analyze the effects of changes in costs and volume on a company's profits