Managerial Accounting 5th edition Braun Test Bank

SKU: 9780134128528-TEST-BANK

Managerial Accounting, 5e **(Braun et al.)**
Chapter 2 Building Blocks of Managerial Accounting

2.1 Distinguish among service, merchandising, and manufacturing companies

1) Service companies must carry a large amount of inventory to meet consumer demand.
Answer: FALSE
Diff: 1
LO: 2-1
EOC: S2-
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Manufacturing companies usually have three types of inventory.
Answer: TRUE
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Retailers sell their products to consumers.
Answer: TRUE
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Merchandising companies include both wholesalers and retailers.
Answer: TRUE
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) All companies have the same types of inventories.
Answer: FALSE
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
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6) Only manufacturing companies have finished goods inventory.
Answer: TRUE
Diff: 2
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
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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: S2-2
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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: Describe the basics of managerial accounting and its function within an organization.

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
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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
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11) Schlabig & Associates, a public accounting firm that provides business consulting to a consumer, is what type of company?
A) Manufacturer
B) Retailer
C) Service
D) Wholesaler
Answer: C
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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
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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: Describe the basics of managerial accounting and its function within an organization.

15) 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: Describe the basics of managerial accounting and its function within an organization.

16) 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: Describe the basics of managerial accounting and its function within an organization.

17) 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
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18) 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: Describe the basics of managerial accounting and its function within an organization.

19) How would Chevrolet classify its partially completed vehicles?
A) Finished goods inventory
B) Raw materials inventory
C) Work in process inventory
D) Supplies inventory
Answer: C
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) 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: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) 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: S2-2
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22) 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: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) 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: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Which type of company has three categories 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: S2-2
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) A _____ company's balance sheet reports just one inventory called "Inventory."
A) service
B) merchandising
C) manufacturing
D) All of these types of companies
Answer: B
Diff: 1
LO: 2-1
EOC: S2-1
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26) 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: Describe the basics of managerial accounting and its function within an organization.

27) Which of the following items could be found in work in process inventory at a candy bar manufacturer?
A) Candy bars made but not coated in chocolate
B) Cocoa products to make candy bars
C) Sugar products to make candy bars
D) Candy bars completed but not yet sold
Answer: A
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) Enter the letter of the type of each company category 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 or minimal inventory
_____ has three types of inventory
_____ has one class of inventory only
_____ Ford Motor Company is an example of this company category
_____ Wal-Mart is an example of this company category
Answer: A, C, B, C, B
Diff: 1
LO: 2-1
EOC: S2-1
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29) 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.	Raw materials inventory	E.	Work in process inventory
B.	Service companies	F.	Manufacturing companies
C.	Merchandise inventory	G.	Merchandising companies
D.	Finished goods inventory		

_____ has a single category of inventory
_____ resells products previously purchased ready-made from a supplier
_____ does not sell inventory as a way to earn profit
_____ produces its own inventory
_____ transforms raw materials into a new finished product
_____ completed goods that have not been sold
_____ partially completed items of manufacturers
_____ steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products

Answer:
G has a single category of inventory
G resells products previously purchased ready-made from a supplier
B inventory is not sold for a profit
F produces its own inventory
F transforms raw materials into a new finished product
D completed goods that have not been sold
E partially completed items of manufacturers
A steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products
Diff: 2
LO: 2-1
EOC: S2-2
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30) Describe service, merchandising, and manufacturing companies.
Answer: Service companies sell intangible services such as insurance, consulting, banking, and healthcare. . 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 purchase from suppliers. Merchandisers have inventory. Manufacturing companies use labor, plant and equipment to convert raw materials into finished products that they sell to other companies. The three types of inventory include: raw materials inventory, work in process inventory, and finished goods inventory.
Diff: 2
LO: 2-1
EOC: S2-1; S2-2
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31) 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 in the middle of the manufacturing process; however, the product is not complete. Finished goods inventory includes completed goods that have not yet been sold to a consumer or group in the marketplace.
Diff: 1
LO: 2-1
EOC: S2-2
AACSB: Reflective thinking
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32) 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 because most restaurants are a service company since they serve hungry customers. A restaurant is also considered a manufacturer if the restaurant converts raw ingredients into finished meals. A restaurant is also considered a merchandise company if the restaurant sells ready-to-serve bottles of beer and wine to consumers and groups in the marketplace. Outback Steakhouse is an example of a restaurant that is categorized as a service company, a merchandise company, and a manufacturing company.
Diff: 2
LO: 2-1
EOC: S2-2
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33) Explain the type of inventory that is characteristic at a service company.
Answer: Service firms do not have inventory costs because services cannot be produced today and stored to sell to a consumer later. They do not generally have inventory; however, some service providers do carry a minimal amount of supply inventory used for internal operations, and it is not sold to generate a profit.
Diff: 2
LO: 2-1
EOC: S2-2
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2.2 Describe the value chain and its elements

1) Controlling costs across the whole 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: Describe the basics of managerial accounting and its function within an organization.

2) 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: Describe the basics of managerial accounting and its function within an organization.

3) 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: Describe the basics of managerial accounting and its function within an organization.

4) 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: Describe the basics of managerial accounting and its function within an organization.

5) 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: Describe the basics of managerial accounting and its function within an organization.

6) Receipt of materials is part of the firm's value chain.
Answer: TRUE
Diff: 1
LO: 2-2
EOC: S2-3
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7) 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
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8) Which of the following value chain elements is associated with the costs of shipping inventory to the retail outlet in a merchandising company?
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: Describe the basics of managerial accounting and its function within an organization.

9) 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: Describe the basics of managerial accounting and its function within an organization.

10) 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
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11) 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: Describe the basics of managerial accounting and its function within an organization.

12) 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: 2-2
EOC: S2-3
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) 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: Describe the basics of managerial accounting and its function within an organization.

14) 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: 2
LO: 2-2
EOC: S2-3
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15) 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
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16) All of the following relate to part of the value chain for a clothing company **except**
A) cost of advertising new products.
B) administrative costs.
C) cost of shipping products to retailers.
D) salaries of clothing designers.
Answer: B
Diff: 2
LO: 2-2
EOC: S2-3
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Which element 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: S2-3
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) Testing ways to increase the strength of your product would be classified as which element of the value chain?
A) Design
B) Distribution
C) Production
D) Research and development
Answer: D
Diff: 1
LO: 2-2
EOC: S2-3
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19) Which element 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: 1
LO: 2-2
EOC: S2-3
AACSB: Reflective thinking
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20) Advertising expenses would be considered which element of the value chain?
A) Customer service
B) Marketing
C) Production
D) Research and development
Answer: B
Diff: 1
LO: 2-2
EOC: S2-3
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21) The costs associated with reengineering machinery and its location within the factory to increase efficiency would be considered which element 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
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22) The costs incurred to transport merchandise to a company's retail store would be considered to be what element 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
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23) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,600
Caps for milk bottles	3300
Reconfiguring the assembly line	125,300
Customer support hotline	10,200
Delivery expenses	20,100
Depreciation on factory equipment	75,900
Plastic milk bottles	52,400
Salaries of salespeople	63,800
Salaries of research scientists	70,000
Customer toll-free order line	6200

What is the total cost of research and development of the value chain?
A) $74,000
B) $70,000
C) $55,300
D) $195,300
Answer: B
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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24) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,100
Caps for milk bottles	3800
Reconfiguring the assembly line	125,500
Customer support hotline	10,700
Delivery expenses	20,300
Depreciation on factory equipment	75,400
Plastic milk bottles	52,200
Salaries of salespeople	63,800
Salaries of research scientists	70,600
Customer toll-free order line	6800

What is the total cost for the production category of the value chain?
A) $501,200
B) $203,500
C) $234,500
D) $332,000
Answer: B
Explanation: B) Calculations: $72,100 + 3800 + 75,400 + 52,200 = $203,500
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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25) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,100
Caps for milk bottles	3600
Reconfiguring the assembly line	125,700
Customer support hotline	10,400
Delivery expenses	20,300
Depreciation on factory equipment	75,000
Plastic milk bottles	52,300
Salaries of salespeople	63,200
Salaries of research scientists	70,300
Customer toll-free order line	6800

What is the total cost for the design category of the value chain?
A) $268,100
B) $188,900
C) $197,800
D) $125,700
Answer: D
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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26) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,800
Caps for milk bottles	3800
Reconfiguring the assembly line	125,100
Customer support hotline	10,500
Delivery expenses	20,500
Depreciation on factory equipment	75,800
Plastic milk bottles	52,300
Salaries of salespeople	63,300
Salaries of research scientists	70,400
Customer toll-free order line	6900

What is the total cost for the distribution category of the value chain?
A) $218,400
B) $24,300
C) $20,500
D) $153,500
Answer: C
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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27) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,500
Caps for milk bottles	3700
Reconfiguring the assembly line	125,000
Customer support hotline	10,100
Delivery expenses	20,800
Depreciation on factory equipment	75,300
Plastic milk bottles	52,300
Salaries of salespeople	63,800
Salaries of research scientists	70,500
Customer toll-free order line	6200

What is the total cost for the marketing category of the value chain?
A) $70,000
B) $188,800
C) $198,700
D) $269,200
Answer: A
Explanation: A) Calculations: $63,800 + 6200 = $70,000
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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28) Lucky Cow Dairy provided the following expense information for May:

Assembly-line workers' wages	$72,300
Caps for milk bottles	3100
Reconfiguring the assembly line	125,500
Customer support hotline	10,300
Delivery expenses	20,200
Depreciation on factory equipment	75,000
Plastic milk bottles	52,600
Salaries of salespeople	63,300
Salaries of research scientists	70,100
Customer toll-free order line	6100

What is the total cost for the customer service category of the value chain?
A) $82,800
B) $16,400
C) $73,600
D) $10,300
Answer: D
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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29) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,600
Depreciation on factory equipment	$35,700
Caps for bottles	$3400
Plastic bottles	$52,700
Reconfiguring the assembly line	$123,900
Salaries of salespeople	$63,900
Customer support hotline	$12,700
Salaries of research scientists	$65,700
Delivery expenses	$40,500
Customer toll-free order line	$8900

What is the total cost of research and development?
A) $58,200
B) $78,400
C) $65,700
D) $189,600
Answer: C
Diff: 21
LO: 2-2
EOC: E2-19A; E2-31B
AACSB: Analytical thinking
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30) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,400
Depreciation on factory equipment	$35,700
Caps for bottles	$3800
Plastic bottles	$52,200
Reconfiguring the assembly line	$123,600
Salaries of salespeople	$63,800
Customer support hotline	$12,900
Salaries of research scientists	$65,200
Delivery expenses	$40,200
Customer toll-free order line	$8800

What is the total cost for the production category of the value chain?
A) $462,600
B) $310,000
C) $148,800
D) $148,100
Answer: D
Explanation: D) Calculations: $56,400 + 35,700 + 3800 + 52,200 = $148,100
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
AACSB: Analytical thinking
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31) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,700
Depreciation on factory equipment	$35,000
Caps for bottles	$3100
Plastic bottles	$52,800
Reconfiguring the assembly line	$123,900
Salaries of salespeople	$63,900
Customer support hotline	$12,900
Salaries of research scientists	$65,900
Delivery expenses	$40,000
Customer toll-free order line	$8800

What is the total cost for the design category of the value chain?
A) $246,500
B) $187,800
C) $180,600
D) $123,900
Answer: D
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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32) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,900
Depreciation on factory equipment	$35,800
Caps for bottles	$3100
Plastic bottles	$52,500
Reconfiguring the assembly line	$123,500
Salaries of salespeople	$63,600
Customer support hotline	$12,900
Salaries of research scientists	$65,000
Delivery expenses	$40,300
Customer toll-free order line	$8000

What is the total cost for the distribution category of the value chain?
A) $40,300
B) $43,400
C) $220,700
D) $173,700
Answer: A
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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33) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,200
Depreciation on factory equipment	$35,400
Caps for bottles	$3200
Plastic bottles	$52,300
Reconfiguring the assembly line	$123,700
Salaries of salespeople	$63,700
Customer support hotline	$12,700
Salaries of research scientists	$65,100
Delivery expenses	$40,300
Customer toll-free order line	$8300

What is the total cost for the marketing category of the value chain?
A) $72,000
B) $180,600
C) $187,400
D) $246,300
Answer: A
Explanation: A) Calculations: $63,700 + 8300 = $72,000
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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34) Joe's Bottling Company provided the following expense information for July:

Assembly-line workers' wages	$56,800
Depreciation on factory equipment	$35,800
Caps for bottles	$3700
Plastic bottles	$52,100
Reconfiguring the assembly line	$123,600
Salaries of salespeople	$63,700
Customer support hotline	$12,400
Salaries of research scientists	$65,700
Delivery expenses	$40,500
Customer toll-free order line	$8800

What is the total cost for the customer service category of the value chain?
A) $61,700
B) $12,400
C) $21,200
D) $76,100
Answer: B
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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35) Sneider Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$63,300
Glass juice bottles	$60,900
Commissions for salespeople	$30,600
Salaries of nutrition researchers	$75,900
Costs of maintaining website used for customer orders	$4500
Wages of factory workers	$75,800
Freshness seals/caps for juice bottles	$3200
Reconfiguring the factory layout	$122,800
Customer help line	$5200
Costs of refrigerated trucks used to deliver juice	$25,500

What is the total cost for the research and development category of the value chain?
A) $75,900
B) $81,100
C) $46,900
D) $198,700
Answer: A
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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36) Sneider Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$63,600
Glass juice bottles	$60,900
Commissions for salespeople	$30,300
Salaries of nutrition researchers	$75,000
Costs of maintaining website used for customer orders	$4800
Wages of factory workers	$75,000
Freshness seals/caps for juice bottles	$3200
Reconfiguring the factory layout	$122,500
Customer help line	$5900
Costs of refrigerated trucks used to deliver juice	$25,000

What is the total cost for the production category of the value chain?
A) $466,200
B) $60,900
C) $305,300
D) $202,700
Answer: D
Explanation: D) Calculations: $75,000 + 3200 + 63,600 + 60,900 = $202,700
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
AACSB: Analytical thinking
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37) Sneider Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$63,100
Glass juice bottles	$60,600
Commissions for salespeople	$30,800
Salaries of nutrition researchers	$75,200
Costs of maintaining website used for customer orders	$4900
Wages of factory workers	$75,300
Freshness seals/caps for juice bottles	$3900
Reconfiguring the factory layout	$122,600
Customer help line	$5600
Costs of refrigerated trucks used to deliver juice	$25,200

What is the total cost for the design category of the value chain?
A) $122,600
B) $197,900
C) $153,400
D) $273,100
Answer: A
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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38) Sneider Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$63,900
Glass juice bottles	$60,500
Commissions for salespeople	$30,400
Salaries of nutrition researchers	$75,100
Costs of maintaining website used for customer orders	$4600
Wages of factory workers	$75,300
Freshness seals/caps for juice bottles	$3000
Reconfiguring the factory layout	$122,400
Customer help line	$5100
Costs of refrigerated trucks used to deliver juice	$25,700

What is the total cost for the distribution category of the value chain?
A) $28,700
B) $25,700
C) $223,400
D) $152,700
Answer: B
Explanation: B) 25,700
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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39) Sneider Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$63,300
Glass juice bottles	$60,400
Commissions for salespeople	$30,500
Salaries of nutrition researchers	$75,400
Costs of maintaining website used for customer orders	$4400
Wages of factory workers	$75,500
Freshness seals/caps for juice bottles	$3400
Reconfiguring the factory layout	$122,100
Customer help line	$5000
Costs of refrigerated trucks used to deliver juice	$25,900

What is the total cost for the marketing category of the value chain?
A) $275,000
B) $34,900
C) $152,600
D) $199,500
Answer: B
Explanation: B) Calculations: $30,500 + 4400 = $34,900
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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40) Lucas Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Wages of factory workers	$75,100
Freshness seals/caps for juice bottles	$3700
Reconfiguring the factory layout	$102,500
Customer help line	$2400
Costs of refrigerated trucks used to deliver juice	$17,800
Depreciation expense on bottling machines	$63,000
Glass juice bottles	$54,300
Commissions for salespeople	$27,000
Salaries of nutrition researchers	$89,200
Costs of maintaining website used for customer orders	$4700

What is the total cost for the customer service category of the value chain?
A) $2400
B) $34,100
C) $80,800
D) $10,800
Answer: A
Diff: 2
LO: 2-2
EOC: E2-19A; E2-31B
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41) 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
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42) A product support hotline would be considered
A) marketing.
B) distribution.
C) production or purchases.
D) customer service.
Answer: D
Diff: 2
LO: 2-2
EOC: S2-3
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43) 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
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44) 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
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45) 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 used to produce them. Design involves the detailed engineering of products and services and the processes used to produce 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 of the product or service.
Diff: 2
LO: 2-2
EOC: S2-3
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46) 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
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2.3 Distinguish between direct and indirect costs

1) 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: S2-5
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) 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; 2-4
EOC: S2-5
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Costs can be either direct or indirect, depending upon the cost object.
Answer: TRUE
Diff: 1
LO: 2-3
EOC: S2-5
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4) Direct costs can be traced to specific units.
Answer: TRUE
Diff: 1
LO: 2-3
EOC: S2-5
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5) Indirect costs cannot be traced to the cost objects, so they are allocated.
Answer: TRUE
Diff: 1
LO: 2-3
EOC: S2-5
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Direct costs for one cost object will always be direct costs for any cost object.
Answer: FALSE
Diff: 2
LO: 2-3
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) An indirect cost for one cost object can be direct cost for a different cost object.
Answer: TRUE
Diff: 2
LO: 2-3
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) 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: S2-5
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9) 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: Describe the basics of managerial accounting and its function within an organization.

10) 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; 2-4
EOC: S2-4
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) 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; 2-4
EOC: S2-5
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) 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; 2-4
EOC: S2-4
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13) Which of the following would **not** be considered a direct cost of a mattress?
A) Fabric
B) Lumber
C) Glue
D) Steel
Answer: C
Diff: 1
LO: 2-3
EOC: S2-4
AACSB: Analytical thinking
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14) 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
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15) If the Ford Focus is the cost object, classify each of the following costs as indirect or direct, respectively: property taxes for the manufacturing plant, engines for the cars, and janitor wages for the factory.
A) indirect, direct, and indirect
B) all are indirect
C) all are direct
D) indirect, direct, and direct
Answer: A
Diff: 1
LO: 2-3
AACSB: Analytical thinking
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16) If a frozen pizza plant is the cost object, classify each of the following costs as direct or indirect, respectively: property insurance, cafeteria workers wages, and janitorial supplies.
A) direct, indirect, and indirect
B) direct, indirect, and direct
C) all are direct
D) all are indirect
Answer: C
Diff: 1
LO: 2-3
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17) Classify each of the following costs as direct or indirect as it relates to one Best Buy retail location: CFO salary, that Best Buy's sales associates, that Best Buy's property insurance, and the legal department for Best Buy.
A) direct, indirect, indirect, and direct
B) indirect, direct, direct, and indirect
C) all are indirect
D) all are direct
Answer: B
Diff: 1
LO: 2-3
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

1) 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: 2-4
EOC: S2-7
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) 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: 2-4
EOC: S2-7
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3) 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: 2-4
EOC: S2-7
AACSB: Reflective thinking
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4) Which of the following is an example of indirect labor in a manufacturing plant?
A) Chief financial officer
B) Machine operators
C) Salespersons
D) Plant managers
Answer: D
Diff: 1
LO: 2-4
EOC: S2-7
AACSB: Analytical thinking
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5) 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: 2-4
EOC: S2-7
AACSB: Analytical thinking
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6) Which of the following is an example of manufacturing overhead expense 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: 2-4
EOC: S2-7
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7) 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: 2-4
EOC: S2-5
AACSB: Analytical thinking
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8) 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: 2-4
EOC: S2-5
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9) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9000
Depreciation on factory equipment	16,300
Factory supervisor salary	50,700
Sales commissions	23,400
Lubricants used in factory equipment	3900
Insurance costs for factory	21,900
Wages paid to maintenance workers	115,700
Fabric used to upholster furniture	10,700
Freight-in (on raw materials)	3200
Costs of delivery to customers	9300
Wages paid to assembly-line workers	115,900
Lumber used to build product	82,400
Utilities in factory	54,700
Utilities in sales office	26,700

Prime costs for Country Furniture Company totaled
A) $93,100.
B) $209,000.
C) $212,200.
D) $378,600.
Answer: C
Explanation: C) Calculations: $3200 + 10,700 + 115,900 + 82,400 = $212,200
Diff: 2
LO: 2-3; 2-4
EOC: E2-21A
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10) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9800
Depreciation on factory equipment	16,000
Factory supervisor salary	50,300
Sales commissions	23,700
Lubricants used in factory equipment	3400
Insurance costs for factory	21,000
Wages paid to maintenance workers	115,700
Fabric used to upholster furniture	10,200
Freight-in (on raw materials)	3600
Costs of delivery to customers	9400
Wages paid to assembly-line workers	115,400
Lumber used to build product	82,100
Utilities in factory	54,900
Utilities in sales office	26,400

Conversion costs for Country Furniture Company totaled
A) $376,700.
B) $211,300.
C) $465,600.
D) $197,500.
Answer: A
Explanation: A) Calculations: $16,000 + 50,300+ 3400 + 21,000 + 115,700 + 115,400 + 54,900= $376,700
Diff: 2
LO: 2-3; 2-4
EOC: E2-21A
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11) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9300
Depreciation on factory equipment	16,000
Factory supervisor salary	50,400
Sales commissions	23,000
Lubricants used in factory equipment	3500
Insurance costs for factory	21,000
Wages paid to maintenance workers	115,100
Fabric used to upholster furniture	10,600
Freight-in (on raw materials)	3300
Costs of delivery to customers	9400
Wages paid to assembly-line workers	115,700
Lumber used to build product	82,400
Utilities in factory	54,800
Utilities in sales office	26,200

Direct material costs for Country Furniture Company totaled
A) $82,400.
B) $10,600.
C) $96,300.
D) $93,000.
Answer: C
Explanation: C) Calculations: $10,600 + 3300 + 82,400 = $96,300
Diff: 2
LO: 2-4
EOC: E2-21A
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12) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9900
Depreciation on factory equipment	16,000
Factory supervisor salary	50,400
Sales commissions	23,800
Lubricants used in factory equipment	3600
Insurance costs for factory	21,700
Wages paid to maintenance workers	115,200
Fabric used to upholster furniture	10,100
Freight-in (on raw materials)	3500
Costs of delivery to customers	9300
Wages paid to assembly-line workers	115,100
Lumber used to build product	82,500
Utilities in factory	54,200
Utilities in sales office	26,700

Direct labor costs for Country Furniture Company totaled
A) $304,500.
B) $115,200.
C) $115,100.
D) $280,700.
Answer: C
Diff: 2
LO: 2-4
EOC: E2-21A
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13) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9300
Depreciation on factory equipment	16,600
Factory supervisor salary	50,900
Sales commissions	23,300
Lubricants used in factory equipment	3500
Insurance costs for factory	21,700
Wages paid to maintenance workers	115,300
Fabric used to upholster furniture	10,500
Freight-in (on raw materials)	3200
Costs of delivery to customers	9500
Wages paid to assembly-line workers	115,300
Lumber used to build product	82,900
Utilities in factory	54,900
Utilities in sales office	26,200

Manufacturing overhead costs for Country Furniture Company totaled
A) $131,400.
B) $262,900.
C) $237,700.
D) $324,900.
Answer: B
Explanation: B) Calculations: $16,600 + $50,900 + $3500 + $21,700 + $115,300 + $54,900 = $262,900
Diff: 2
LO: 2-4
EOC: E2-21A
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14) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9800
Depreciation on factory equipment	16,700
Factory supervisor salary	50,100
Sales commissions	23,700
Lubricants used in factory equipment	3600
Insurance costs for factory	21,400
Wages paid to maintenance workers	115,200
Fabric used to upholster furniture	10,400
Freight-in (on raw materials)	3200
Costs of delivery to customers	9300
Wages paid to assembly-line workers	115,700
Lumber used to build product	82,600
Utilities in factory	54,000
Utilities in sales office	26,300

Product costs for Country Furniture Company totaled
A) $472,900.
B) $448,300.
C) $373,100.
D) $489,200.
Answer: A
Explanation: A) Calculations: $16,700 + 50,100 + 3600 + 21,400 + 115,200 + 10,400 + 3200 + 115,700 + 82,600 + 54,000 = $472,900
Diff: 2
LO: 2-4
EOC: E2-21A
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15) 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	$60,800
Fabric used to upholster furniture	$80,800
Wages paid to assembly-line workers	$100,600
Lumber used to build product	$15,600
Sales commissions	$7700
Insurance costs for factory	$21,300
Freight-in (on raw materials)	$3700
Utilities in factory	$12,400
Factory supervisor salary	$60,700
Depreciation on factory equipment	$18,600
Utilities in sales office	$26,300
Costs of delivery to customers	$8100
Depreciation on sales office	$1000
Lubricants used in factory equipment	$800

Prime costs for Rustic Living Furniture Company totaled
A) $200,700.
B) $96,400.
C) $197,000.
D) $243,000.
Answer: A
Explanation: A) Calculations: $15,600 + 80,800 + 3700 + 100,600 = $200,700.
Diff: 2
LO: 2-4
EOC: E2-21A
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16) 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	$60,400
Fabric used to upholster furniture	$80,000
Wages paid to assembly-line workers	$100,000
Lumber used to build product	$15,700
Sales commissions	$7100
Insurance costs for factory	$21,100
Freight-in (on raw materials)	$3700
Utilities in factory	$12,800
Factory supervisor salary	$60,800
Depreciation on factory equipment	$18,700
Utilities in sales office	$26,000
Costs of delivery to customers	$8200
Depreciation on sales office	$1800
Lubricants used in factory equipment	$500

Conversion costs for Rustic Living Furniture Company totaled
A) $199,400.
B) $369,500.
C) $176,100.
D) $274,300.
Answer: D
Explanation: D) Calculations: $18,700 + 60,400 + 500 + 21,100 + 60,800 + 12,800 + 100,000 = $274,300
Diff: 2
LO: 2-4
EOC: E2-21A
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17) 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	$60,700
Fabric used to upholster furniture	$80,500
Wages paid to assembly-line workers	$100,200
Lumber used to build product	$15,100
Sales commissions	$7700
Insurance costs for factory	$21,900
Freight-in (on raw materials)	$3900
Utilities in factory	$12,400
Factory supervisor salary	$60,100
Depreciation on factory equipment	$18,200
Utilities in sales office	$26,400
Costs of delivery to customers	$8500
Depreciation on sales office	$1700
Lubricants used in factory equipment	$500

Direct material costs for Rustic Living Furniture Company totaled
A) $15,100.
B) $99,500.
C) $95,600.
D) $80,500.
Answer: B
Explanation: B) Calculations: $80,500 + 3900 + 15,100 = $99,500
Diff: 2
LO: 2-4
EOC: E2-21A
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18) 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	$60,300
Fabric used to upholster furniture	$80,200
Wages paid to assembly-line workers	$100,300
Lumber used to build product	$15,300
Sales commissions	$7000
Insurance costs for factory	$21,700
Freight-in (on raw materials)	$3800
Utilities in factory	$12,900
Factory supervisor salary	$60,800
Depreciation on factory equipment	$18,100
Utilities in sales office	$26,700
Costs of delivery to customers	$8800
Depreciation on sales office	$1300
Lubricants used in factory equipment	$500

Direct labor costs for Rustic Living Furniture Company totaled
A) $228,400.
B) $221,400.
C) $100,300.
D) $60,800.
Answer: C
Diff: 2
LO: 2-4
EOC: E2-21A
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19) 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	$60,100
Fabric used to upholster furniture	$80,700
Wages paid to assembly-line workers	$100,200
Lumber used to build product	$15,500
Sales commissions	$7200
Insurance costs for factory	$21,600
Freight-in (on raw materials)	$3900
Utilities in factory	$12,700
Factory supervisor salary	$60,900
Depreciation on factory equipment	$18,400
Utilities in sales office	$26,000
Costs of delivery to customers	$8900
Depreciation on sales office	$1800
Lubricants used in factory equipment	$800

Manufacturing overhead costs for Rustic Living Furniture Company totaled
A) $174,500.
B) $81,100.
C) $152,100.
D) $222,300.
Answer: A
Explanation: A) Calculations: $18,400 + 60,100 + 800 + 21,600 + 60,900 + 12,700 = $174,500
Diff: 2
LO: 2-4
EOC: E2-21A
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20) Use the correct number to designate each item below. Assume each item is for a manufacturer.

1. direct materials
2. period costs
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: 2-4
EOC: S2-7
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21) 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 separate and 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 of direct material at 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 of indirect labor at a furniture manufacturer include costs for forklift operators, janitors, and plant managers.
Diff: 2
LO: 2-4
EOC: E2-21A
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22) Indirect manufacturing costs should be included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: 2-4
EOC: S2-7
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23) An inventoriable cost could be the cost of the marketing and distribution of a product.
Answer: FALSE
Diff: 2
LO: 2-4
EOC: S2-6
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24) Inventoriable product costs consist of manufacturing overhead, direct labor and direct materials.
Answer: TRUE
Diff: 1
LO: 2-4
EOC: S2-6
AACSB: Reflective thinking
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25) 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: 1
LO: 2-4
EOC: S2-7
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26) Which of the following would **not** be considered a product cost of a manufacturer?
A) Direct labor
B) Direct materials
C) Manufacturing overhead
D) Freight out
Answer: D
Diff: 2
LO: 2-4
EOC: S2-6
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27) 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: 1
LO: 2-4
EOC: S2-6
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28) 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: 1
LO: 2-4
EOC: S2-7
AACSB: Analytical thinking
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29) 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: 1
LO: 2-4
EOC: S2-6
AACSB: Analytical thinking
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30) 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: S2-5
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31) 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: S2-5
AACSB: Analytical thinking
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32) 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: S2-5
AACSB: Analytical thinking
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33) 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: S2-5
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34) 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: S2-5
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35) 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: S2-7
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36) 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: S2-6
AACSB: Analytical thinking
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37) 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: 1
LO: 2-4
EOC: S2-6
AACSB: Analytical thinking
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38) 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: S2-6
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39) 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: S2-7
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40) 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: S2-5
AACSB: Analytical thinking
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41) 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: S2-6
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42) 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: S2-5
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43) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 9100
Depreciation on factory equipment	16,400
Factory supervisor salary	50,600
Sales commissions	23,200
Lubricants used in factory equipment	3600
Insurance costs for factory	21,100
Wages paid to maintenance workers	115,100
Fabric used to upholster furniture	10,200
Freight-in (on raw materials)	3300
Costs of delivery to customers	9900
Wages paid to assembly-line workers	115,500
Lumber used to build product	82,900
Utilities in factory	54,600
Utilities in sales office	26,600

Period costs for Country Furniture Company totaled
A) $42,200.
B) $129,900.
C) $45,600.
D) $68,800.
Answer: D
Explanation: D) Calculations: $9100 + 23,200 + 9900 + 26,600 = $68,800
Diff: 2
LO: 2-4
EOC: E2-21A
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44) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

Wages paid to maintenance workers	$60,700
Lumber used to build the product	$80,400
Wages paid to assembly-line workers	$100,300
Shingles used for the roof	$15,600
Sales commissions	$7200
Insurance costs for factory	$21,700
Freight-in (on raw materials)	$3000
Utilities in factory	$12,100
Factory supervisor salary	$60,000
Depreciation on factory equipment	$18,300
Utilities in sales office	$26,500
Costs of delivery to customers	$8800
Depreciation on sales office	$1800
Lubricants used in factory equipment	$100

Product costs for Rustic Living Furniture Company totaled
A) $279,500.
B) $347,500.
C) $372,200.
D) $369,900.
Answer: C
Explanation: C) Calculations: $18,300+ 60,700 + 100 + 21,700 + 12,100 + 60,000 + 80,400 + 3000 + 100,300 + 15,600 = $372,200
Diff: 2
LO: 2-4
EOC: E2-21A
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45) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

Wages paid to maintenance workers	$60,600
Lumber used to build the product	$80,600
Wages paid to assembly-line workers	$100,200
Shingles used for the roof	$15,900
Sales commissions	$7400
Insurance costs for factory	$21,000
Freight-in (on raw materials)	$3700
Utilities in factory	$12,100
Factory supervisor salary	$60,900
Depreciation on factory equipment	$18,000
Utilities in sales office	$26,200
Costs of delivery to customers	$8300
Depreciation on sales office	$1700
Lubricants used in factory equipment	$100

Period costs for Rustic Living Furniture Company totaled
A) $43,600.
B) $36,200.
C) $17,400.
D) $65,400.
Answer: A
Explanation: A) Calculations: $1700 +7400 + 8300 + 26,200 = $43,600
Diff: 2
LO: 2-4
EOC: E2-21A
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46) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	$151,200
Heating and lighting costs for factory	$65,700
Factory janitor wages	$67,400
Costs of shipping to customers	$12,000
Lubricants used in factory equipment	$2700
Lighting costs for sales office	$20,600
Depreciation on factory equipment	$23,800
Office supplies for sales office	$6800
Insurance costs for factory	$13,700
Maintenance worker wages	$99,600
Freight-in (on plastics)	$7600
Aluminum used to make products	$175,900
Assembly-line worker wages	$142,600
Salaries of salespeople	$74,600

Product costs for Winner's Sporting Equipment totaled
A) $728,900.
B) $750,200.
C) $618,800.
D) $742,500.
Answer: B
Explanation: B) Calculations: $23,800 + 67,400 + 2700 + 13,700 + 99,600 + 151,200 + 7600 + 142,600 + 175,900 + 65,700 = $750,200
Diff: 3
LO: 2-4
EOC: E2-21A
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47) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	$151,400
Heating and lighting costs for factory	$65,300
Factory janitor wages	$67,800
Costs of shipping to customers	$11,100
Lubricants used in factory equipment	$2900
Lighting costs for sales office	$20,100
Depreciation on factory equipment	$23,400
Office supplies for sales office	$6200
Insurance costs for factory	$13,600
Maintenance worker wages	$99,900
Freight-in (on plastics)	$7600
Aluminum used to make products	$175,300
Assembly-line worker wages	$142,000
Salaries of salespeople	$74,600

Period costs for Winner's Sporting Equipment totaled
A) $94,934.
B) $91,900.
C) $189,600.
D) $112,000.
Answer: D
Explanation: D) Calculations: $11,100 + 20,100 + 6200 + 74,600 = $112,000
Diff: 2
LO: 2-4
EOC: E2-21A
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48) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What are the total period costs for Happy Feet Running Company for the month?
A) $46,250
B) $40,250
C) $53,175
D) $74,725
Answer: A
Explanation: A) $25,000 + $3,000 + $5,000 + $6,000 + $7,000 + $250 = $46,250
Diff: 3
LO: 2-4
AACSB: Analytical thinking
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49) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What is the total manufacturing overhead for Happy Feet Running Company for the month?
A) $40,025
B) $33,775
C) $31,575
D) $58,775
Answer: B
Explanation: B) $1,300 + $850 + $3,000 + $5,000 + $17,250 + $3,500 + $1,000 + $1,200 + $675 = $33,775
Diff: 3
LO: 2-4
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Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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50) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What is the total direct materials for Happy Feet Running Company for the month?
A) $60,000
B) $83,400
C) $75,000
D) $81,250
Answer: D
Explanation: D) $35,000 + $15,000 + $25,000 + $6,250 = $81,250
Diff: 3
LO: 2-4
AACSB: Analytical thinking
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51) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What is the total for direct labor costs for Happy Feet Running Company for the month?
A) $15,000
B) $40,000
C) $48,000
D) $10,000
Answer: D
Diff: 2
LO: 2-4
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52) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What are prime costs for Happy Feet Running Company for the month?
A) $124,250
B) $116,250
C) $91,250
D) $85,000
Answer: C
Explanation: C) DM: $35,000 + $15,000 + $25,000 + $6,250 = $81,250 DL: $10,000 so $81,250 + $10,000 = $91,250
Diff: 3
LO: 2-4
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53) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	$35,000
Gel used to make the product	15,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	1,300
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	5,000
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,000
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	675

What are conversion costs for Happy Feet Running Company for the month?
A) $82,350
B) $50,025
C) $43,775
D) $68,775
Answer: C
Explanation: C) DL: $10,000 MOH: $1,300 + $850 + $3,000 + $5,000 + $17,250 + $3,500 + $1,000 + $1,200 + $675 = $33,775 so $10,000 + $33,775 = $43,775
Diff: 3
LO: 2-4
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54) 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
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55) Indicate whether each of the following costs is a product cost or a period cost. Assume it is for 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: Describe the basics of managerial accounting and its function within an organization.

56) Direct labor for a company was $145,100; manufacturing overhead was $300,300; and direct materials were $270,800. Conversion costs would total
A) $571,100
B) $716,200
C) $415,900
D) $445,400
Answer: D
Explanation: D) Calculations: $300,300 + 145,100 = $445,400
Diff: 2
LO: 2-4
EOC: E2-21A
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57) Direct materials for a company were $501,000; manufacturing overhead was $250,600; and direct labor was $770,300. Conversion costs would total
A) $1,020,900
B) $1,271,300
C) $1,521,900
D) $751,600
Answer: A
Explanation: A) Calculations: $770,300 + 250,600 = $1,020,900
Diff: 2
LO: 2-4
EOC: E2-21A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

58) Direct labor for a company was $145,800; manufacturing overhead was $300,400; and direct materials were $270,600. Prime costs would total
A) $716,800.
B) $446,200.
C) $416,400.
D) $571,000.
Answer: C
Explanation: C) Calculations: $145,800 + 270,600 = $416,400
Diff: 2
LO: 2-4
EOC: E2-21A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

59) Direct materials for a company were $500,700; manufacturing overhead was $250,500; and direct labor was $770,500. Prime costs would total
A) $1,021,000.
B) $1,271,200.
C) $1,521,700.
D) $751,200.
Answer: B
Explanation: B) Calculations: $500,700 + 770,500 = $1,271,200
Diff: 2
LO: 2-4
EOC: E2-21A
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60) Product costs include
A) direct materials.
B) indirect materials.
C) direct labor.
D) all of the above are included in product costs.
Answer: D
Diff: 1
LO: 2-4
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

61) Which of the following would NOT be considered period costs?
A) Depreciation of factory equipment
B) Utilities of retail location
C) Depreciation on sales force vehicles
D) Property insurance on corporate headquarters
Answer: A
Diff: 1
LO: 2-4
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

62) Manufacturing overhead includes
A) direct materials, direct labor, and factory overhead.
B) only indirect materials and indirect labor.
C) indirect materials, indirect labor, and all other indirect costs related to the manufacturing facility.
D) only labor, both direct and indirect.
Answer: C
Diff: 1
LO: 2-4
AACSB: Reflective thinking
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63) An example of a period cost would be the
A) salary to the CEO.
B) materials purchased to manufacture the product.
C) salary to the factory supervisor.
D) property insurance paid for the manufacturing facility.
Answer: A
Diff: 1
LO: 2-4
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64) Period costs are generally also known as
A) factory overhead.
B) prime costs.
C) annual expenses.
D) operating expenses.
Answer: D
Diff: 1
LO: 2-4
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

Research and development	$53,200
Design	$17,700
Purchases	$72,200
Marketing	$42,100
Distribution	$58,200
Customer service	$35,200

What were the company's period costs?
A) $206,400
B) $278,600
C) $100,300
D) $135,500
Answer: A
Explanation: A) Calculations: $53,200 + 17,700 + 42,100 + 58,200 + 35,200 = $206,400
Diff: 2
LO: 2-2
EOC: E2-18A; E2-30B
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2.5 Prepare the financial statements for service, merchandising, and manufacturing companies

1) Product costs and period costs receive similar treatment when presented in the financial statements.
Answer: FALSE
Diff: 1
LO: 2-5
EOC: S2-12
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

2) The income statements of manufacturing companies are more complex than those of service or merchandising companies.
Answer: TRUE
Diff: 1
LO: 2-5
EOC: S2-11
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

3) The financial statements of a merchandiser are more complex than those of a manufacturer.
Answer: FALSE
Diff: 1
LO: 2-5
EOC: E2-22A
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

4) Service companies have the most complex accounting with regard to the income statement.
Answer: FALSE
Diff: 1
LO: 2-5
EOC: E2-22A
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

5) Cost of goods sold is a major expense of service companies.
Answer: FALSE
Diff: 1
LO: 2-5
EOC: E2-22A
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6) The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.
Answer: TRUE
Diff: 1
LO: 2-5
EOC: E2-25A
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

7) 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 basic managerial accounting concepts and prepare an income statement for different types of organizations.

8) 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 basic managerial accounting concepts and prepare an income statement for different types of organizations.

9) 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: E2-22A
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10) 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: E2-22A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

11) 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: E2-23A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

12) 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: 1
LO: 2-5
EOC: E2-23A
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13) 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 basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases	$140,900
Operating expenses	80,900
Beginning inventory	12,400
Ending inventory	18,500
Sales revenue	300,100

What is the cost of goods available for sale?
A) $140,900
B) $153,300
C) $80,900
D) $134,800
Answer: B
Explanation: B) Calculations: Beginning Inventory $12,400 + Purchases $140,900 = Cost of Goods Available For Sale = $153,300
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
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15) Tuity Fruity Beverage Company's operating activities for the year are listed below.

Purchases	$140,700
Operating expenses	80,500
Beginning inventory	12,500
Ending inventory	18,000
Sales revenue	300,100

What is the cost of goods sold for the year?
A) $153,200
B) $135,200
C) $140,700
D) $80,500
Answer: B
Explanation: B) Calculations: Beginning Inventory $12,500 + Purchases $140,700 = Goods Available For Sale $153,200 - Ending Inventory $18,000 = $135,200
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases	$140,100
Operating expenses	80,400
Beginning inventory	13,000
Ending inventory	19,000
Sales revenue	300,400

What is the gross profit for the year?
A) $160,300
B) $300,400
C) $80,400
D) $166,300
Answer: D
Explanation: D) Calculations: Beg Inv $13,000 + Purchases $140,100 = Goods available $153,100 - ending inventory $19,000 = Cost of Goods Sold 134,100. Now Sales $300,400 - CGS $134,100 = Gross Profit $166,300
Diff: 3
LO: 2-5
EOC: E2-26A
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17) Chicago Steel's operating activities for the year are listed below.

Beginning inventory	$1,001,000
Ending inventory	$350,100
Purchases	$750,300
Sales revenue	$1,500,100
Operating expenses	$700,800

What is the cost of goods available for sale?
A) $1,401,200
B) $749,800
C) $49,500
D) $1,751,300
Answer: D
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Beginning inventory	$1,000,400
Ending inventory	$350,800
Purchases	$750,700
Sales revenue	$1,500,900
Operating expenses	$700,600

What is the cost of goods sold for the year?
A) $1,400,300
B) $750,200
C) $50,100
D) $1,751,100
Answer: A
Explanation: A) Calculations: Beginning Inventory $1,000,400 + Purchases $750,700 = Goods Available $1,751,100 - Ending Inventory $350,800 = $1,400,300
Diff: 2
LO: 2-5
EOC: E2-25A
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19) Chicago Steel's operating activities for the year are listed below.

Beginning inventory	$1,000,000
Ending inventory	$350,700
Purchases	$750,500
Sales revenue	$1,500,300
Operating expenses	$700,300

What is the gross profit for the year?
A) $50,200
B) $749,800
C) $1,500,300
D) $100,500
Answer: D
Explanation: D) Calculations: Beginning Inventory $1,000,000 + Purchases $750,500 = Goods Available $1,750,500 - Ending Inventory $350,700 = CGS $1,399,800. Now Sales 1,500,300 - CGS $1,399,800 = Gross Profit $100,500
Diff: 3
LO: 2-5
EOC: E2-26A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases	$174,800
Operating expenses	62,900
Beginning inventory	27,000
Ending inventory	37,800
Sales revenue	333,300

What is the cost of goods available for sale?
A) $164,000
B) $201,800
C) $95,600
D) $174,800
Answer: B
Explanation: B) Calculations: $27,000 + $174,800 = $201,800
Diff: 2
LO: 2-5
EOC: E2-25A
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21) Challenge Tennis & Recreation's operating activities for the year are listed below.

Purchases	$174,000
Operating expenses	62,200
Beginning inventory	27,900
Ending inventory	38,000
Sales revenue	333,400

What is the cost of goods sold for the year?
A) $201,900
B) $163,900
C) $174,000
D) $97,200
Answer: B
Explanation: B) Calculations: $27,900 + $174,000 = $201,900 - $38,000 = $163,900
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases	$174,900
Operating expenses	62,800
Beginning inventory	27,200
Ending inventory	37,000
Sales revenue	333,500

What is the gross profit for the year?
A) $158,600
B) $333,500
C) $95,800
D) $168,400
Answer: D
Explanation: D) Calculations: $27,200 + $174,900 = $202,100 - $37,000 = $165,100. Then $333,500 - $165,100 = $168,400
Diff: 3
LO: 2-5
EOC: E2-26A
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23) 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
D) Beginning finished goods inventory less ending finished goods inventory
Answer: D
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

24) 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
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25) Lots of Stuff Company reports the following data for its first year of operation.

Work in process inventory, beginning	0
Work in process inventory, ending	140,000
Direct materials used	110,400
Direct Labor	134,000
Manufacturing overhead	185,800
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,500

What are the total manufacturing costs to account for?
A) $199,700
B) $244,400
C) $430,200
D) $134,000
Answer: C
Explanation: C) Calculations: $110,400 + $134,000 + $185,800 = $430,200
Diff: 3
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Cost of goods manufactured	$455,800
Work in process inventory, beginning	0
Work in process inventory, ending	140,400
Direct materials used	110,900
Direct Labor	137,000
Manufacturing overhead	185,300
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,700

What is the cost of goods sold?
A) $365,100
B) $455,800
C) $752,000
D) $520,900
Answer: A
Explanation: A) Calculations: $455,800 - 90,700 = $365,100
Diff: 3
LO: 2-5
EOC: E2-25A
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27) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	$710,200
Direct Labor	350,000
Cost of goods manufactured	1,030,300
Finished goods inventory, ending	190,900
Finished goods inventory, beginning	0
Manufacturing overhead	100,100
Work in process inventory, beginning	0
Work in process inventory, ending	130,000

What are the total manufacturing costs to account for?
A) $1,169,700
B) $1,160,300
C) $1,490,600
D) $489,400
Answer: B
Explanation: B) Calculations:
$710,200 + $350,000 + $100,100 = $1,161,100
Diff: 3
LO: 2-5
EOC: E2-25A
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28) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	$710,100
Cost of goods manufactured	1,030,300
Direct Labor	350,000
Finished goods inventory, ending	190,800
Manufacturing overhead	100,100
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) $680,200
B) $459,500
C) $839,500
D) $1,490,400
Answer: C
Explanation: C) Calculations: $680,200 - 190,800 = $489,400
Diff: 3
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Work in process inventory, beginning	0
Work in process inventory, ending	90,200
Direct materials used	85,200
Direct Labor	60,000
Manufacturing overhead	100,900
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,700

What are the total manufacturing costs to account for?
A) $650,700
B) $836,800
C) $246,100
D) $580,000
Answer: C
Explanation: C) Calculations:
$85,200 +$60,000+ $100,900 = $246,200
Diff: 3
LO: 2-5
EOC: E2-25A
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30) Fit Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	$155,600
Work in process inventory, beginning	0
Work in process inventory, ending	90,500
Direct materials used	85,300
Direct Labor	60,000
Manufacturing overhead	100,800
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,500

What is the cost of goods sold?
A) $650,200
B) $836,300
C) $85,100
D) $655,400
Answer: C
Explanation: C) Calculations: $650,200 - 70,500 = $579,700
Diff: 3
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
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31) Tall Timbers reports the following data for its first year of operation.

Work in process inventory, beginning	$ 0
Work in process inventory, ending	50,400
Manufacturing overhead	25,400
Direct materials used	7700
Direct Labor	60,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,000
Cost of goods manufactured	42,700

What are the total manufacturing costs to account for?
A) $48,300
B) $93,100
C) $85,600
D) $118,700
Answer: B
Explanation: B) Calculations: $7700 + $60,000+ $25,400 = $92,900
Diff: 3
LO: 2-5
EOC: E2-25A
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32) Tall Timbers reports the following data for its first year of operation.

Work in process inventory, beginning	$ 0
Work in process inventory, ending	50,900
Manufacturing overhead	25,400
Direct materials used	7800
Direct Labor	60,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,000
Cost of goods manufactured	42,300

What is the cost of goods sold?
A) $22,300
B) $85,400
C) $118,600
D) $116,300
Answer: A
Explanation: A) Calculations: $85,400 - 20,000 = $65,400
Diff: 3
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases	$105,200
Operating expenses	$53,200
Beginning merchandise inventory	$15,000
Ending merchandise inventory	$12,000
Sales revenue	$170,700

What is cost of goods available for sale?
A) $117,200
B) $65,500
C) $120,200
D) $102,200
Answer: C
Explanation: C) Calculations: $105,200 + $15,000 = $120,200
Diff: 2
LO: 2-5
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34) Page's sells books. The following information summarizes the company's operating expenses for the year:

Cost of goods sold	$105,600
Salaries and wages	$53,900
Rent and utilities	$14,600
Marketing	$11,800
Sales revenues	$197,000

What is operating income?
A) $25,700
B) $102,800
C) $116,700
D) $11,100
Answer: D
Explanation: D) Calculations:
$197,000 - $105,600 = $91,400 gross profit
Operating Expenses: $53,900 + $14,600 + $11,800 = $80,300 Total Operating Expenses
Operating Income: 91,400-80,300 = $11,100 Operating Income
Diff: 3
LO: 2-5
EOC: E2-26A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

35) The Seashell Factory sells beach goods to tourists. The following information summarizes the company's operating expenses for the year:

Cost of goods sold	$108,000
Marketing	$2000
Rent and utilities	$12,600
Salaries and wages	$12,800
Sales revenues	$170,100

What is gross profit?
A) $62,100
B) $34,700
C) $142,700
D) $89,500
Answer: A
Explanation: A) Calculations: $170,100 - $108,000 = $62,100 Gross profit
Diff: 2
LO: 2-5
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36) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 9900
Sales commissions	10,400
Sales revenue	164,300
Purchases of merchandise	85,600
January 1 inventory	27,600
Rent for store	14,300
December 31 inventory	23,200

What is cost of goods sold?
A) $85,600
B) $90,000
C) $108,800
D) $113,200
Answer: B
Explanation: B) Calculations: $27,600 + 85,600 = 113,200 - $23,200 = $90,000
Diff: 3
LO: 2-5
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37) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 10,200
Sales commissions	10,900
Sales revenue	164,200
Purchases of merchandise	89,000
January 1 inventory	27,000
Rent for store	14,000
December 31 inventory	23,500

What is operating income?
A) $153,300
B) $58,600
C) $36,600
D) $38,200
Answer: C
Explanation: C) Calculations: $164,200 -($27,000+ $89,000 - $23,500 = $92,500) = $71,700 - $10,200 - $10,900 - $14,000 = $36,600
Diff: 3
LO: 2-5
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38) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 9700
Sales commissions	10,800
Sales revenue	164,200
Purchases of merchandise	89,100
January 1 inventory	27,500
Rent for store	14,400
December 31 inventory	23,100

What is gross profit?
A) $70,700
B) $41,200
C) $85,500
D) $58,000
Answer: A
Explanation: A) Calculations: $164,200 - ($89,100 + $27,500 - $23,100 = $93,500) = $70,700
Diff: 3
LO: 2-5
EOC: E2-26A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Utilities for the store	$ 9900
Sales commissions	10,900
Sales revenue	164,400
Purchases of merchandise	89,600
January 1 inventory	28,000
Rent for store	14,200
December 31 inventory	23,600

What are total operating expenses?
A) $35,000
B) $20,800
C) $25,100
D) $24,100
Answer: A
Explanation: A) Calculations: $9900 + $10,900 + $14,200 = $35,000
Diff: 2
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40) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	$7200
Sales revenue	$25,000
Sales commissions	$700
Rent for office	$2200
Utilities for the office	$1400
Purchases	$6500
Ending inventory	$5600

What is cost of goods sold?
A) $9300
B) $6500
C) $8100
D) $13,700
Answer: C
Explanation: C) Calculations: $7200 + 6500 = 13,700 - $5600 = $8100
Diff: 3
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Beginning inventory	$7700
Sales revenue	$25,000
Sales commissions	$500
Rent for office	$2400
Utilities for the office	$1900
Purchases	$6400
Ending inventory	$5200

What is operating income?
A) $11,300
B) $23,100
C) $14,200
D) $13,700
Answer: A
Explanation: A) Calculations: $25,000 - $8900 = $16,100 - $1900 - $500 - $2400 = $11,300
Diff: 3
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42) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	$7800
Sales revenue	$25,400
Sales commissions	$800
Rent for office	$2800
Utilities for the office	$1600
Purchases	$6800
Ending inventory	$5800

What is gross profit?
A) $15,000
B) $20,800
C) $16,600
D) $11,400
Answer: C
Explanation: C) 25,400 - (7800 + 6800 - 5800) = 16,600
Diff: 3
LO: 2-5
EOC: E2-26A
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43) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	$7900
Sales revenue	$25,300
Sales commissions	$900
Rent for office	$2900
Utilities for the office	$1700
Purchases	$6900
Ending inventory	$5200

What are total operating expenses?
A) $3800
B) $2600
C) $4600
D) $5500
Answer: D
Explanation: D) Calculations: $900 + 2900 + 1700 = $5500
Diff: 2
LO: 2-5
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44) Porches, Inc. sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was $33,700.
Ending merchandise inventory on December 31 was $35,700.
Purchases during the year were $92,900.
Selling and administrative expenses were $75,500.
Sales for year were $262,200.

What was cost of goods sold?
A) $162,300
B) $94,900
C) $90,900
D) $93,800
Answer: C
Explanation: C) Calculations: $92,900 + $33,700 = $126,600 - $35,700 = $90,900
Diff: 2
LO: 2-5
EOC: E2-25A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Beginning merchandise inventory on January 1 was $33,200.
Ending merchandise inventory on December 31 was $36,000.
Purchases during the year were $92,800.
Selling and administrative expenses were $75,400.
Sales for year were $262,800.

What was gross profit?
A) $151,400
B) $170,000
C) $187,400
D) $172,800
Answer: D
Explanation: D) Calculations: $92,800 + $33,200 = $126,000 - $36,000 = $90,000. Next $262,800 - $90,000 = $172,800
Diff: 2
LO: 2-5
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46) Porches, Inc. sells lawn furniture. Selected financial information for the most recent year is as follows:

Beginning merchandise inventory on January 1 was $33,300.
Ending merchandise inventory on December 31 was $35,000.
Purchases during the year were $92,300.
Selling and administrative expenses were $75,900.
Sales for year were $262,700.

What was operating income for the year?
A) $90,600
B) $96,200
C) $94,500
D) $92,800
Answer: B
Explanation: B) Calculations: $92,300 + $33,300 = $125,600 - $35,000 = $90,600. Next $262,700 - $90,600 = $172,100 - $75,900 = $96,200
Diff: 2
LO: 2-5
EOC: E2-26A
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47) Porches, Inc. sells lawn furniture to consumers in the marketplace. The managerial accountant reported the following financial information that reflects the 20XX data:

Beginning merchandise inventory on January 1:	$233,900
Ending merchandise inventory on December 31:	$136,000
Purchases:	$952,100
Selling and administrative expenses:	$175,700
Sales revenue for the year:	$2,262,300
Cost of goods sold:	$1,050,000
Salary and wage expenses:	$250,900
Rent and utility expenses:	$75,800

Compute the operating income.
A) 709,900
B) $124,200
C) $184,400
D) $84,500
Answer: A
Explanation: A) Calculations:
Gross Profit: $2,262,300 - $1,050,000 = $1,212,300
Less Operating Expenses: $1,212,300 - $250,900 - $75,800 - $175,700 = $709,900 Operating Income
Diff: 2
LO: 2-5
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48) Selected financial information for Brookeville Manufacturing is presented in the following table (000s omitted).

Sales revenue	$4300
Purchases of direct materials	$500
Direct labor	$460
Manufacturing overhead	$710
Operating expenses	$690
Beginning raw materials inventory	$220
Ending raw materials inventory	$200
Beginning work in process inventory	$390
Ending work in process inventory	$420
Beginning finished goods inventory	$280
Ending finished goods inventory	$250

What was the cost of direct materials used?
A) $720
B) $420
C) $520
D) $500
Answer: C
Explanation: C) Calculations: $220 + $500 = $720 - $200 = 520
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49) Selected financial information for Brookeville Manufacturing is presented in the following table (000s omitted).

Sales revenue	$5000
Purchases of direct materials	$480
Direct labor	$520
Manufacturing overhead	$670
Operating expenses	$720
Beginning raw materials inventory	$290
Ending raw materials inventory	$200
Beginning work in process inventory	$380
Ending work in process inventory	$460
Beginning finished goods inventory	$270
Ending finished goods inventory	$250

What was the cost of goods manufactured?
A) $1840
B) $1590
C) 1680
D) $1760
Answer: C
Explanation: C) Calculations: $290 + $480 - $200 = $570 Direct Materials Used
$380 + $570 + $520 + $670 = $2140 - $460 = $1680
Diff: 3
LO: 2-5
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50) Selected financial information for Brookeville Manufacturing is presented in the following table (000s omitted).

Sales revenue	$4500
Purchases of direct materials	$490
Direct labor	$520
Manufacturing overhead	$630
Operating expenses	$740
Beginning raw materials inventory	$240
Ending raw materials inventory	$200
Beginning work in process inventory	$330
Ending work in process inventory	$470
Beginning finished goods inventory	$270
Ending finished goods inventory	$280

What was cost of goods sold?
A) $1530
B) $1550
C) $1700
D) $950
Answer: A
Explanation: A) Calculations
Cost of Goods Manufactured: $330 + $520 + $630 + $530 = $2010 - $470 = $1540
Cost of Goods Sold $270 + $1540 = $1810 - $280 = $1530
Diff: 3
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51) Selected financial information for Brookeville Manufacturing is presented in the following table (000s omitted).

Sales revenue	$4700
Purchases of direct materials	$440
Direct labor	$520
Manufacturing overhead	$640
Operating expenses	$730
Beginning raw materials inventory	$280
Ending raw materials inventory	$230
Beginning work in process inventory	$320
Ending work in process inventory	$430
Beginning finished goods inventory	$330
Ending finished goods inventory	$260

What was operating income?
A) $2730
B) $4700
C) $3970
D) $2360
Answer: D
Explanation: D) Calculations: $4700 - $1610 = $3090 - $730 = $2360
Diff: 3
LO: 2-5
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52) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	$390
Ending raw materials inventory	$210
Direct labor	$270
Operating expenses	$730
Purchases of direct materials	$350
Beginning work in process inventory	$400
Ending work in process inventory	$620
Sales revenue	$4600
Manufacturing overhead	$780
Beginning finished goods inventory	$330
Ending finished goods inventory	$300

What was the cost of direct materials used?
A) $740
B) $530
C) $180
D) $350
Answer: B
Explanation: B) Calculations: $390 + $350 = $740 - $210 = $530
Diff: 2
LO: 2-5
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53) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	$320
Ending raw materials inventory	$230
Direct labor	$260
Operating expenses	$710
Purchases of direct materials	$360
Beginning work in process inventory	$320
Ending work in process inventory	$670
Sales revenue	$5000
Manufacturing overhead	$790
Beginning finished goods inventory	$350
Ending finished goods inventory	$350

What was cost of goods manufactured?
A) $1480
B) $1110
C) $2000
D) $1150
Answer: D
Explanation: D) Calculations: $320 + 360 - 230 = $450 + 320 + 260 + 790 - 670 = $1150
Diff: 3
LO: 2-5
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54) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	$300
Ending raw materials inventory	$200
Direct labor	$250
Operating expenses	$740
Purchases of direct materials	$400
Beginning work in process inventory	$330
Ending work in process inventory	$610
Sales revenue	$4500
Manufacturing overhead	$750
Beginning finished goods inventory	$350
Ending finished goods inventory	$280

What was cost of goods sold?
A) $1080
B) $1290
C) $750
D) $1280
Answer: B
Explanation: B) Calculations:
Direct Materials: 300 + $400 = $700 - $200 = $500
COGM: $330 +$250 + $500 + $750 = $1830 - $610 = $1220
COGS: $350 + $1220 = $1570 - $280 = $1290
Diff: 3
LO: 2-5
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55) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	$390
Ending raw materials inventory	$240
Direct labor	$300
Operating expenses	$720
Purchases of direct materials	$350
Beginning work in process inventory	$400
Ending work in process inventory	$600
Sales revenue	$4600
Manufacturing overhead	$740
Beginning finished goods inventory	$330
Ending finished goods inventory	$320

What was operating income?
A) $3970
B) $4600
C) $3070
D) $2530
Answer: D
Explanation: D) Calculations: $4600 - 1350 = 3250 - 720 = $2530
Diff: 3
LO: 2-5
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56) Selected information regarding a company's most recent quarter follows (all data in thousands).

Beginning work in process inventory	$340
Cost of goods manufactured	$660
Direct materials used	$220
Direct labor	$140
Ending work in process inventory	$140

What was manufacturing overhead for the quarter?
A) $520
B) $100
C) $860
D) $140
Answer: B
Explanation: B) Calculations: $660 + 140 = $800 - 340 - 140 - 220 = $100
Diff: 3
LO: 2-5
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57) Selected information regarding a company's most recent quarter follows (all data in thousands).

Direct labor	$580
Beginning work in process inventory	$320
Ending work in process inventory	$340
Cost of goods manufactured	$1560
Manufacturing overhead	$870

What was the cost of direct materials used for the quarter?
A) $130
B) $530
C) $1540
D) $870
Answer: A
Explanation: A) Calculations: $1560 + 340 - 320 = 1580 - 580 - 870 = $130
Diff: 3
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58) Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	$650
Gross profit	$2420
Sales revenue	$3070
Ending finished goods inventory	$290
Cost of goods manufactured	$1650

What was cost of goods sold?
A) $1290
B) $650
C) $1000
D) $770
Answer: B
Explanation: B) Calculations: $3070 - 2420 = $650
Diff: 2
LO: 2-5
EOC: E2-27A
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59) Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	$770
Gross profit	$2430
Sales revenue	$4070
Ending finished goods inventory	$320
Cost of goods manufactured	$1220

What was the beginning finished goods inventory?
A) $2080
B) $450
C) $740
D) $770
Answer: C
Explanation: C) Calculations: $4070 - 2430 = 1640 + 320 = 1960 - 1220 = $740
Diff: 3
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60) Selected information regarding a company's most recent quarter follows (all data in thousands).

Sales revenue	$4050
Beginning raw materials inventory	$290
Direct materials used	$470
Purchases of direct materials	$420
Direct labor	$460
Manufacturing overhead	$650

What was the ending raw materials inventory?
A) $470
B) $780
C) $240
D) $890
Answer: C
Explanation: C) Calculations: $290 + 420 = 710 - 470 = $240
Diff: 3
LO: 2-5
EOC: E2-27A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Ending work in process inventory	$710
Cost of goods manufactured	$800
Direct labor	$500
Direct materials used	$190
Beginning work in process inventory	$310

What was manufacturing overhead for the quarter?
A) $110
B) $400
C) $690
D) $510
Answer: D
Explanation: D) Calculations: $800 + 710 = 1510 - 310 - 500 - 190 = $510
Diff: 3
LO: 2-5
EOC: E2-27A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Ending work in process inventory	$480
Manufacturing overhead	$910
Cost of goods manufactured	$1400
Beginning work in process inventory	$330
Direct labor	$560

What was the cost of direct materials used for the quarter?
A) $1060
B) $1250
C) $580
D) $80
Answer: D
Explanation: D) Calculations: $1400 + 480 - 330 = 1550 - 560 - 910 = $80
Diff: 3
LO: 2-5
EOC: E2-27A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Cost of goods manufactured	$1610
Gross profit	$3010
Operating expenses	$520
Ending finished goods inventory	$430
Sales revenue	$4080

What was cost of goods sold?
A) $1090
B) $1950
C) $2560
D) $1070
Answer: D
Explanation: D) Calculations: $4080 - 3010 = $1070
Diff: 2
LO: 2-5
EOC: E2-27A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Cost of goods manufactured	$1590
Gross profit	$2630
Operating expenses	$4050
Ending finished goods inventory	$480
Sales revenue	$6080

What was the beginning finished goods inventory?
A) $2340
B) $440
C) $560
D) $2460
Answer: A
Explanation: A) Calculations: $6080 - 2630 = $3450 + 480 = 3930 - 1590 = $2340
Diff: 3
LO: 2-5
EOC: E2-27A
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

Purchases of direct materials	$310
Sales revenue	$3600
Manufacturing overhead	$520
Direct materials used	$450
Direct labor	$290
Beginning raw materials inventory	$190

What was the ending raw materials inventory?
A) $760
B) $450
C) $50
D) $330
Answer: C
Explanation: C) Calculations: $190 + 310 = 500 - 450 = $50
Diff: 3
LO: 2-5
EOC: E2-27A
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66) Gross profit is calculated by
A) subtracting cost of goods sold from sales.
B) adding sales to operating expenses.
C) subtracting operating expenses from sales.
D) adding profit to sales.
Answer: A
Diff: 1
LO: 2-5
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

67) Sales minus cost of goods sold equals gross profit.
Answer: TRUE
Diff: 1
LO: 2-5
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

68) Cost of goods manufactured reflects
A) goods sold during the period.
B) goods completed during the period.
C) goods still in the factory at the end of the period.
D) goods not yet started at the end of the period.
Answer: B
Diff: 2
LO: 2-5
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

69) Direct materials used reflects
A) materials used to package the finished product for distribution/shipping to the customers.
B) all materials used throughout the company including but not limited to office materials, shipping materials, all raw materials, etc.
C) materials directly traced to the finished product that are requisitioned into the factory to be used in production.
D) materials acquired for use in production but that have not been requisitioned by the production supervisor yet.
Answer: C
Diff: 2
LO: 2-5
AACSB: Analytical thinking
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70) Direct materials used is the same thing as raw materials.
Answer: FALSE
Diff: 1
LO: 2-5
AACSB: Reflective thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

71) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	$60,000
Ending Inventory for Raw Materials	$44,600
Beginning Inventory for Work in Process	$83,000
Ending Inventory for Work in Process	$92,000
Beginning Inventory for Finished Goods	$45,000
Ending Inventory for Finished Goods	$51,000
Purchases of Raw Materials	$40,000
Wags paid to assembly line workers	$115,000
Wages paid to factory supervisor	$25,000
Property insurance paid on factory	$4,500
Utilities for the factory	$9,000
Indirect materials used in production	$3,000
Sales Revenue	$525,000
General & Administrative Expenses	$135,000

Calculate direct materials used for Zoolander Inc.'s first quarter.
A) $55,400
B) $40,000
C) $24,600
D) $31,000
Answer: A
Explanation: A) Beg Inv. RM $60,000 + Purchases $40,000 - End Inv. RM $44,600 = DM Used $55,400
Diff: 3
LO: 2-5
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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72) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	$60,000
Ending Inventory for Raw Materials	$44,600
Beginning Inventory for Work in Process	$83,000
Ending Inventory for Work in Process	$92,000
Beginning Inventory for Finished Goods	$45,000
Ending Inventory for Finished Goods	$51,000
Purchases of Raw Materials	$40,000
Wags paid to assembly line workers	$115,000
Wages paid to factory supervisor	$25,000
Property insurance paid on factory	$4,500
Utilities for the factory	$9,000
Indirect materials used in production	$3,000
Sales Revenue	$525,000
General & Administrative Expenses	$135,000

Calculate cost of goods manufactured for Zoolander Inc.'s first quarter.
A) $199,900
B) $202,900
C) $187,500
D) $197,000
Answer: B
Explanation: B) Beg Inv. RM $60,000 + Purchases $40,000 - End Inv. RM $44,600 = DM Used $55,400
Beg. Inv. WIP $83,000 + DM Used $55,400 + DL $115,000 + MOH ($25,000 + $4,500 + $9,000 + $3,000) - End. Inv. WIP $92,000 = $202,900 CGM
Diff: 3
LO: 2-5
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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73) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	$60,000
Ending Inventory for Raw Materials	$44,600
Beginning Inventory for Work in Process	$83,000
Ending Inventory for Work in Process	$92,000
Beginning Inventory for Finished Goods	$45,000
Ending Inventory for Finished Goods	$51,000
Purchases of Raw Materials	$40,000
Wags paid to assembly line workers	$115,000
Wages paid to factory supervisor	$25,000
Property insurance paid on factory	$4,500
Utilities for the factory	$9,000
Indirect materials used in production	$3,000
Sales Revenue	$525,000
General & Administrative Expenses	$135,000

Calculate cost of goods sold for Zoolander Inc.'s first quarter.
A) $181,500
B) $196,900
C) $187,500
D) $193,000
Answer: B
Explanation: B) Beg Inv. RM $60,000 + Purchases $40,000 - End Inv. RM $44,600 = DM Used $55,400

Beg. Inv. WIP $83,000 + DM Used $55,400 + DL $115,000 + MOH ($25,000 + $4,500 + $9,000 + $3,000) - End. Inv. WIP $92,000 = $202,900 CGM

Beg. Inv. FG $45,000 + CGM $202,900 - End. Inv. FG $51,000 = CGS $196,900
Diff: 3
LO: 2-5
AACSB: Analytical thinking
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74) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Cost of Goods Manufactured	$197,300
Cost of Goods Sold	$163,750
Property insurance paid on factory	$4,500
Utilities for the factory	$9,000
Indirect materials used in production	$3,000
Sales Revenue	$650,000
Operating Expenses	$205,000

Calculate gross profit for Zoolander Inc.'s first quarter.
A) $281,250
B) $445,000
C) $452,700
D) $486,250
Answer: D
Explanation: D) Sales Revenue $650,000 - CGS $163,750 = GP $486,250
Diff: 2
LO: 2-5
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

75) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Cost of Goods Manufactured	$197,300
Cost of Goods Sold	$163,750
Property insurance paid on factory	$4,500
Utilities for the factory	$9,000
Indirect materials used in production	$3,000
Sales Revenue	$650,000
Operating Expenses	$205,000

Calculate operating income for Zoolander Inc.'s first quarter.
A) $281,250
B) $445,000
C) $452,700
D) $486,250
Answer: A
Explanation: A) Sales Revenue $650,000 - CGS $163,750 = GP $486,250 - Operating Expenses $205,000 = $281,250
Diff: 3
LO: 2-5
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76) The main difference between the current assets on the balance sheet of a service company and a manufacturer is that a manufacturer has
A) inventory and a service company does not.
B) cost of goods sold and a service company does not.
C) accounts receivable and a service company does not.
D) accounts payable and a service company does not.
Answer: A
Diff: 1
LO: 2-5
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

77) 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
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78) 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
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79) Kitch Company sells collectibles. The following information summarizes Kitch Company'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: E2-23A
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80) Swirzoff 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:

Swirzoff 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: E2-23A
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81) North Pacific Company used $65,000 of direct materials and incurred $43,000 of direct labor costs during the most recent year. 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 $7,800 balance.

Required: Prepare a schedule of cost of goods manufactured for North Pacific 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			$134,000

Diff: 3
LO: 2-5
EOC: E2-25A
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82) 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
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83) Lighthouse Merchandise Group is a global operation that sells lighthouse merchandise to consumers and groups in the marketplace. The managerial accountant reported the following information:

Lighthouse Merchandise Group		
Income Statement		
Month Ended October 31, 20XX		
Sales Revenue		$1,000,000
Cost of goods sold:		
Beginning inventory	$25,000	
Purchases and freight-In	$250,000	
Cost of goods available for sale	?	
Ending inventory	(75,000)	
Cost of goods sold	?	

Compute the cost of goods available for sale at Lighthouse Merchandise Group. What is the cost of goods sold?
Answer: To compute the cost of goods available for sale: $25,000 + $250,000 = $275,000
Cost of Goods Sold: $275,000 - $75,000 = $200,000
Diff: 2
LO: 2-5
EOC: S-10
AACSB: Analytical thinking
Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

2.6 Describe costs that are relevant and irrelevant for decision making

1) Over the long-term, all costs are uncontrollable.
Answer: FALSE
Diff: 1
LO: 2-6
EOC: S2-15
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Differential cost is the difference in cost between two alternatives.
Answer: TRUE
Diff: 1
LO: 2-6
EOC: S2-15
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Decision making is guided only by differential costs.
Answer: FALSE
Diff: 2
LO: 2-6
EOC: S2-15
AACSB: Analytical thinking
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4) Irrelevant factors should not be considered when making decisions.
Answer: TRUE
Diff: 1
LO: 2-6
EOC: S2-14
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) 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: E2-28A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Sunk costs are irrelevant to the decision making process.
Answer: TRUE
Diff: 1
LO: 2-6
EOC: S2-14
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) 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: S2-14
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) 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: S2-14
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9) 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: S2-15
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) 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: S2-15
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) 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: E2-28A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) 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: E2-28A
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13) A company is deciding whether to purchase production equipment that 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: E2-28A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) A company is deciding whether to purchase production equipment that 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: E2-28A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) 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: E2-28A
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Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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16) 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 total estimated cost of gas to be used by each vehicle.
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: E2-28A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) An example of a controllable cost is
A) property taxes.
B) advertising.
C) depreciation on headquarters building.
D) property insurance.
Answer: B
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) An example of an uncontrollable cost is
A) property taxes.
B) property insurance.
C) depreciation on factory equipment.
D) all of the above.
Answer: D
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Controllable costs are those costs that the management has immediate control over such as depreciation on factory equipment.
Answer: FALSE
Diff: 2
LO: 2-6
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20) Controllable costs include all the following except
A) employee development.
B) research and development.
C) real estate taxes of the corporate headquarters building.
D) advertising.
Answer: C
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) A relevant cost in determining whether to take the train to Phoenix or fly to Phoenix would be
A) the cost of a housesitter for your pets.
B) the cost of the plane ticket.
C) the cost of the hotel room in Phoenix.
D) the cost of the rental car in Phoenix.
Answer: B
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) A _____ cost is always irrelevant.
A) conversion
B) differential
C) sunk
D) manufacturing
Answer: C
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) An example of a sunk cost is
A) the purchase price of new equipment being considered for purchase.
B) maintenance costs of new equipment.
C) the cost of installation of the new equipment.
D) the purchase price of the old equipment.
Answer: D
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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24) Chilton Corporation is analyzing its controllable costs to see where it can save money. Which of the following costs should it ignore during this analysis?
A) employee development
B) factory property insurance
C) employee bonuses
D) advertising
Answer: B
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Stallard Corporation is analyzing its controllable costs to see where it can save money in the coming year. All of the following costs except _____ should be analyzed.
A) factory real estate taxes
B) charitable contributions
C) paid internship program
D) employee raises
Answer: A
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Factory property taxes, factory property insurance, and depreciation on current equipment are all examples of uncontrollable costs.
Answer: TRUE
Diff: 1
LO: 2-6
AACSB: Reflective thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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27) 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: Describe the basics of managerial accounting and its function within an organization.

28) 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: Describe the basics of managerial accounting and its function within an organization.

29) 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: 2-6
EOC: S2-15
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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30) Sally wants to purchase a new sofa because she purchased a new home at the beach. Sally visited two stores and she narrowed down her choices to a red sofa and a blue sofa. Sally owns pets so she considers the cost of insurance to insure each sofa. Sally compiled the following data and she realizes that the sales tax to purchase the sofa is 10% in her state.

	Red Sofa	Blue Sofa
Price	$8,000	$8,400
Insurance	$950	$350

Which sofa should Sally purchase? What costs are relevant in her decision? Why?
Answer:

	Red Sofa	**Blue Sofa**	**Differential Cost**
Price	$8,000	$8,400	($400)
Sales Tax (10%)	$800	$840	($40)
Insurance	$950	$350	$600
Total Relevant Cost	$9,750	$9,590	$160

Which sofa should Sally purchase? Why?
Answer: Sally should purchase the blue sofa. The costs that are relevant in her decision include the price of the sofa, the taxes, and the cost of the insurance to insure the sofa. Although the cost and taxes associated with the blue sofa are higher, the cost to purchase insurance on the blue sofa is more cost effective compared to the red sofa.
Diff: 3
LO: 2-6
EOC: P2-45A
AACSB: Analytical thinking
Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

1) Variable costs per unit decrease as production volume increases.
Answer: FALSE
Diff: 1
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

2) Fixed costs vary in total over a wide range of activity levels.
Answer: FALSE
Diff: 1
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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3) All costs contain both a fixed and a variable portion.
Answer: FALSE
Diff: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

4) The total cost of a product equals the total fixed costs plus the total variable costs.
Answer: TRUE
Diff: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

5) A marginal cost is the cost of making one more unit of a product.
Answer: TRUE
Diff: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

6) To forecast total costs at a given level of production, management would use which of the following calculations?
A) Average cost × total units predicted
B) Total fixed cost × total units predicted
C) Total fixed cost + (variable cost per unit × total units predicted)
D) Total fixed cost + variable cost per unit
Answer: C
Diff: 1
LO: 2-7
EOC: E2-29A
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

7) 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: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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8) 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: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

9) Plowin' Supply plans to make 15,000 tractors at its plant. Fixed costs are $540,000 and variable costs are $200 per tractor. What is the average cost per tractor?
A) $200
B) $2700
C) $236
D) $36
Answer: C
Explanation: C) Calculations: ($540,000 + ($200 × 15,000))/15,000 = $236
Diff: 1
LO: 2-7
EOC: E2-47B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

10) 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: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

11) 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: S2-16
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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12) 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: S2-16
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

13) 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: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

14) 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: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

15) 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: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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16) 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: 2
LO: 2-7
EOC: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

17) 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: 2
LO: 2-7
EOC: S2-15
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

18) A company has monthly fixed costs of $115,500. The variable costs are $5.00 per unit. If the sales price of a unit is $15.00 and we sell 7700 units, the company's average fixed costs per unit will be
A) $10.00 per unit.
B) $5.00 per unit.
C) $20.00 per unit.
D) $15.00 per unit.
Answer: D
Explanation: D) Calculations: 115,500 / 7700 = 15
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

19) A company has monthly fixed costs of $96,000. The variable costs are $8.00 per unit. If the sales price of a unit is $14.00 and we sell 8000 units, the company's total variable costs will be
A) $96,000.
B) $64,000.
C) $112,000.
D) $48.
Answer: B
Explanation: B) Calculations: 8000 × $8.00 = $64,000
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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20) A company has monthly fixed costs of $96,000. The variable costs are $8.00 per unit. If the sales price of a unit is $14.00 and we sell $8000 units, the total sales revenue will be
A) $48.
B) $96,000.
C) $112,000.
D) $95,950.
Answer: C
Explanation: C) Calculations: $14.00 × 8000 = $112,000
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

21) London Plastics has monthly fixed costs of $87,000, while its variable costs are $4.60 per unit. If the sales price of a unit is $14.00 and London Plastics sell 15,000 units, the company's average fixed costs per unit will be
A) $5.80 per unit.
B) $10.40 per unit.
C) $4.60 per unit.
D) $9.40 per unit.
Answer: A
Explanation: A) Calculations: 87,000 / 15,000 = $5.80
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

22) London Plastics has monthly fixed costs of $84,000, while its variable costs are $4.70 per unit. If the sales price of a unit is $15.50 and London Plastics sell $14,000 units, the company's total variable costs will be
A) $151,200.
B) $65,800.
C) $217,000.
D) $84,000.
Answer: B
Explanation: B) Calculations: $4.70 × 14,000 = $65,800
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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23) London Plastics has monthly fixed costs of $92,500, while its variable costs are $4.10 per unit. If the sales price of a unit is $14.25 and London Plastics sell 14,800 units, the company's total sales revenue will be
A) $150,220.
B) $210,900.
C) $92,500.
D) $179,080.
Answer: B
Explanation: B) Calculations: 14,800 × $14.25 = $210,900
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

24) 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: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

25) A company produces toy airplanes at a variable cost of $24 per toy. If 7090 toys are produced at a total variable cost of $170,160, the total variable cost at 4540 toys will be
A) $170,160.
B) $24.
C) $108,960.
D) $279,120.
Answer: C
Explanation: C) Calculations: $24 × 4540 = $108,960
Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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26) 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: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

27) 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: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

28) Marginal cost is essentially variable cost because fixed costs do not change in total.
Answer: TRUE
Diff: 2
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

29) Harper Inc. has fixed costs of $600,000 when it produces 300,000 units. Its total variable costs are $150,000. When Harper Inc. produces 400,000 units which is within the relevant range, fixed costs will be
A) $600.000.
B) $800,000.
C) $200,000.
D) $225,000.
Answer: A
Explanation: A) fixed costs do not change in total
Diff: 2
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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30) Harper Inc. has fixed costs of $600,000 when it produces 300,000 units. Its total variable costs are $150,000. When Harper Inc. produces 400,000 units, its variable cost per unit will be
A) $2.00.
B) $0.38.
C) $2.50.
D) $0.50.
Answer: D
Explanation: D) $150,000 / 300,000 units = $0.50 per unit
Diff: 2
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

31) Harper Inc. has fixed costs of $600,000 when it produces 300,000 units. Its total variable costs are $150,000. When Harper Inc. produces 400,000 units, its total variable cost per unit will be
A) $152,000.
B) $225,000.
C) $200,000.
D) $150,000.
Answer: C
Explanation: C) $150,000 / 300,000 units = $0.50 per unit X 400,000 units = $200,000
Diff: 2
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

32) How do fixed costs react in total and on a per unit basis?
A) Fixed costs remain constant in total and decrease per unit as production increases.
B) Fixed costs remain constant in total and on a per unit basis as production increases.
C) Fixed costs increase in total as production increases and remain constant on a per unit basis.
D) Fixed costs increase in total and on a per until basis.
Answer: A
Diff: 2
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

33) Average cost can be used to calculate total cost at a new level of production.
Answer: FALSE
Diff: 1
LO: 2-7
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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34) Which of the following costs would be considered variable?
A) direct materials
B) sales commission
C) hourly wages of employees
D) all of the above
Answer: D
Diff: 1
LO: 2-7
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

35) An example of a fixed cost would be
A) rent.
B) direct materials.
C) hourly wages.
D) sales commission.
Answer: A
Diff: 1
LO: 2-7
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

36) All of the following are considered fixed costs except
A) property taxes.
B) property insurance.
C) tires used in production of cars.
D) rent on the factory storage for finished goods.
Answer: C
Diff: 1
LO: 2-7
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

37) All of the following are considered variable costs except
A) cost of sugar used to produce chocolate candy bars.
B) salary of the factory supervisor.
C) shipping costs of an online retailer.
D) cost of chicken nuggets used at a fast food chain.
Answer: B
Diff: 1
LO: 2-7
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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38) 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 distinguish among variable, fixed and mixed costs.

39) 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: S2-15
AACSB: Reflective thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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40) 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.

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

Answer:

a. $800 ($400 + $400)
b. $1,500 (60 cents × 2,500 snack packs)
c. 32 cents ($800/2,500 snack packs)
d. 60 cents (given in the problem)
e. $.92
f. $0.08 ($1 - 60 cents - 32 cents)
g. Yes, I will make 8 cents per snack pack and if I sell 2,500 I will make a profit of $200.

Diff: 2
LO: 2-7
EOC: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

41) 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: S2-15
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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42) Sydney's Barbecue manufactures barbecue equipment for consumers and businesses in the marketplace. The managerial accountant at Sydney's Barbecue reported the following data:

Sydney's Barbecue
Period Ending December 31, 20XX

Manufacturing costs	4,900,000
Units manufactured	70,000
Beginning inventory	0

Note: 45,000 units sold during year at $270 per unit

What is the average manufacturing cost per unit at Sydney's Barbecue? (Round your answer)
A) $70.00
B) $80.00
C) $87.00
D) $97.00
E) $107.00
Answer: A
Explanation: A) The average manufacturing cost per unit is $70.00. $4,900,000 / 70,000 = $70.00.
Diff: 3
LO: 2-7
EOC: E2-41B
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

43) Sydney's Barbecue reported the following information:

Sydney's Barbecue
Period Ending December 31, 20XX

Manufacturing costs	4,200,000
Units manufactured	60,000
Beginning inventory	0

Note: 45,100 units sold during year at $270 per unit

What is the amount of ending finished goods inventory for the period ending December 31, 20XX?
A) $1,023,000
B) $1,033,000
C) $1,043,000
D) $1,053,000
E) $1,063,000
Answer: C
Explanation: C) 60,000 units - 45,100 units = 14,900 units × $70 per unit = $1,043,000
Diff: 3
LO: 2-7
EOC: P2-43A
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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44) Stacy's Manufacturing Company manufactures parts to accommodate the needs of bicycle shops. The managerial accountant reported the following data:

Stacy's Manufacturing	
Manufacturing costs	$2,250,000
Units manufactured	50,000
Beginning inventory	0
NOTE: 30,000 units sold during year at $200 per unit	

Compute the average manufacturing cost per unit. What is the amount of ending finished goods inventory?
Answer: The average manufacturing cost per unit: $2,250,000 / 50,000 = $45.00.
The amount of finished goods inventory: 50,000 units - 30,000 = 20,000 units × $45 = $900,000
Diff: 3
LO: 2-7
EOC: P2-43A
AACSB: Analytical thinking
Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

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