

***Horngrens Financial and Managerial Accounting  
The Managerial Chapters 5th edition Miller-Nobles  
Test Bank***

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***Horngren's Financial and Managerial Accounting, 5e (Miller-Nobles)***  
**Chapter 16 Introduction to Managerial Accounting**

**Learning Objective 16-1**

1) Managerial accounting focuses on providing information for internal planning and control.

Answer: TRUE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

2) Financial accounting prepares reports for internal purposes, whereas managerial accounting provides information to external stakeholders.

Answer: FALSE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

3) Financial statements prepared for investors and creditors often include forward-looking information because they make decisions based on a company's future prospects.

Answer: FALSE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

4) Managerial accounting reporting by a public firm is required to follow the rules of GAAP and guidelines of the Securities and Exchange Commission.

Answer: FALSE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

5) A budget is a managerial accounting tool used in the planning process.

Answer: TRUE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

6) Financial reporting is typically much more detailed than managerial accounting.

Answer: FALSE

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

7) Which of the following is an objective of managerial accounting?

A) to generate a company's financial statements for tax reporting

B) to provide information to business managers to assist them in controlling their business

C) to provide information to shareholders to assist them with their investment decisions

D) to ensure that the reports produced for internal and external business purposes are GAAP compliant

Answer: B

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

8) Which of the following statements is true of managerial accounting?

A) The external stakeholders of a company are the primary users of managerial accounting.

B) Managerial accounting information is used to help managers plan and control their operations.

C) An external audit by an independent CPA is required for managerial accounting information.

D) Managerial accounting information must comply with Generally Accepted Accounting Principles.

Answer: B

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

9) Managerial accounting information for a company is primarily used by \_\_\_\_\_.

A) its customers to understand the pricing of the product

B) its creditors to understand the credibility of the business

C) its employees to plan and control operations

D) its investors to make their investment decisions

Answer: C

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

10) Which of the following statements is true of financial accounting?

- A) It provides information to investors needed for their investment decisions.
- B) It provides forward-looking information needed for managing and delegating operations.
- C) It focuses on detailed reports for parts of the company rather than the whole company.
- D) It focuses on planning and controlling day-to-day operations.

Answer: A

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

11) Managerial accounting includes the planning function. Which of the following items would be part of the planning function of a business's managerial accounting?

- A) comparing actual performance to previously budgeted amounts
- B) creating detailed budgets
- C) implementing operational plans
- D) evaluating results of operations

Answer: B

Diff: 1

LO: 16-1

AACSB: Analytical thinking

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

12) Comparing actual performance to previously budgeted amounts is part of the \_\_\_\_\_.

- A) controlling function of managerial accounting
- B) planning function of managerial accounting
- C) reporting function of managerial accounting
- D) organizing function of managerial accounting

Answer: A

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

13) Which of the following is the primary objective of managerial accounting?

- A) providing information that managers need to make operational decisions
- B) providing historical data to investors and creditors
- C) providing summarized results of operations
- D) providing information to comply with laws and regulations of government bodies

Answer: A

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

14) Which of the following is the primary focus of financial accounting?

- A) providing information that managers need to make operational decisions
- B) providing summarized information on operational results to investors and creditors
- C) providing budgets for future periods
- D) providing highly detailed information on product lines, regions, and divisions

Answer: B

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

15) For each of the following, indicate whether the statement relates to managerial accounting (MA) or financial accounting (FA):

| Statement                                                                                                 | Applies to<br>MA or FA |
|-----------------------------------------------------------------------------------------------------------|------------------------|
| How reports will affect employee behavior is a concern.                                                   |                        |
| Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis. |                        |
| Relevant information and focus on the future.                                                             |                        |
| Primary users include investors, creditors, and government authorities.                                   |                        |
| There is no requirement to follow GAAP.                                                                   |                        |

Answer:

| Statement                                                                                                 | Applies to<br>MA or FA |
|-----------------------------------------------------------------------------------------------------------|------------------------|
| How reports will affect employee behavior is a concern.                                                   | MA                     |
| Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis. | FA                     |
| Relevant information and focus on the future.                                                             | MA                     |
| Primary users include investors, creditors, and government authorities.                                   | FA                     |
| There is no requirement to follow GAAP.                                                                   | MA                     |

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

16) Define planning. List and briefly discuss a planning tool that managers can use.

Answer: Planning is the process of choosing goals and deciding how to achieve them. The budget is a common planning tool. The budget shows the expected financial impact of decisions and helps identify the resources needed to achieve goals.

Diff: 1

LO: 16-1

AICPA Functional: Measurement

PE Question Type: Concept

H2: Financial Versus Managerial Accounting

17) Management accountability is the manager's responsibility to the various stakeholders of the company to maximize profits.

Answer: FALSE

Explanation: Management accountability is the manager's responsibility to the various stakeholders of the company to wisely manage the resources of the organization.

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

18) Managerial accounting provides financial statements that report results of operations, financial position, and cash flows both to managers and to external stockholders.

Answer: FALSE

Explanation: Managerial accounting provides the information needed to plan and control operations.

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

19) Management's accountability to its suppliers and vendors is to \_\_\_\_\_.

A) provide products to customers that are safe and free of defects

B) obey laws and pay taxes timely

C) provide a return on shareholders' investment

D) make timely payments and comply with contract terms

Answer: D

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

20) How is the management of a company accountable to its employees?

- A) The management must provide products that are safe and free of defects.
- B) The management must provide a safe workplace.
- C) The management must ensure that it earns a net positive return on its investments.
- D) The management must ensure the business is environmentally responsible to its community.

Answer: B

Diff: 1

LO: 16-1

AACSB: Interpersonal relations and teamwork

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

21) Management of a company is accountable to \_\_\_\_\_ for obeying laws and paying taxes.

- A) the natural environment
- B) its asset vendors
- C) the securities exchange
- D) the government

Answer: D

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

22) In which of the following ways is the management of a company accountable to its communities?

- A) making timely interest payments to creditors and dividend payments to investors
- B) ensuring the company's environmental impact is not harmful to its community
- C) providing a capital return on the shareholders' investment
- D) repaying principal and interest to the suppliers

Answer: B

Diff: 1

LO: 16-1

AICPA Functional: Reporting

PE Question Type: Concept

H2: Management Accountability

23) ERP systems can integrate all of a company's functions, departments, and data into a single system.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Information technology

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

24) \_\_\_\_\_ is a philosophy of continuous improvement of products and processes.

- A) Just-in-Time (JIT) Management
- B) Enterprise Resource Planning (ERP)
- C) Supply Chain Management (SCM)
- D) Total Quality Management (TQM)

Answer: D

Diff: 1

LO: 16-1

AACSB: Information technology

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

25) Which of the following describes a system in which suppliers deliver materials at the time they are needed and finished units are completed when customer orders need to be filled?

- A) Supply Chain Management (SCM)
- B) Just-in-Time (JIT) Management
- C) Enterprise Resource Planning (ERP)
- D) Total Quality Management (TQM)

Answer: B

Diff: 1

LO: 16-1

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

26) What is Total Quality Management (TQM)?

- A) a philosophy of supplying customers with superior products and services
- B) an exchange of information with suppliers and customers to create efficient and effective processes
- C) a software system that integrates a company's functions, departments, and data into a single system
- D) a system that speeds the transformation of raw materials into finished products

Answer: A

Diff: 1

LO: 16-1

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

27) An Enterprise Resource Planning system (ERP) \_\_\_\_\_.

- A) is a cost management system in which a company produces products just in time to satisfy needs
- B) requires the implementation of Total Quality Management
- C) integrates all worldwide functions, departments, and data of a company into a single system
- D) cannot be implemented in service companies

Answer: C

Diff: 1

LO: 16-1

AACSB: Information technology

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment



28) Which of the following correctly describes Just-in-Time (JIT) Management?

- A) It is a production approach that maintains surplus goods at each stage of manufacture.
- B) It is an inventory purchase approach that seeks purchase discounts on buying large quantities.
- C) It is a cost management approach that focuses on maintaining lean inventory levels.
- D) It is an inventory approach that stockpiles raw materials to protect against supply interruptions.

Answer: C

Diff: 2

LO: 16-1

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

29) Which of the following is true of Just-in-Time (JIT) Management?

- A) It results in more storage and insurance costs.
- B) It is a system in which the company produces products only after receiving an order.
- C) It promotes surplus inventory to prevent production shut-down in case of supply interruptions.
- D) It requires a surplus inventory of finished goods to ensure timely, or just-in-time, delivery to customers.

Answer: B

Diff: 2

LO: 16-1

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

30) Which of the following is a philosophy designed to integrate all organizational areas in order to provide customers with superior products and services, while meeting organizational goals throughout the value chain?

- A) Supply Chain Management (SCM)
- B) Just-in-Time (JIT) Management
- C) Enterprise Resource Planning (ERP)
- D) Total Quality Management (TQM)

Answer: D

Diff: 1

LO: 16-1

AACSB: Information technology

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

31) The entire sequence of activities that add value to a company's products and services is called \_\_\_\_\_.

- A) the value chain
- B) the planning process
- C) TQM production chain
- D) Enterprise Resource Planning

Answer: A

Diff: 1

LO: 16-1

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Today's Business Environment

32) The IMA standards of ethical practice require managerial accountants to maintain their professional competence.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

33) The accountant for Myra Lido deliberately recorded operating expenses as operating assets in order to record a higher net income for the company. As long as the amount of the misstatement was not material, this would not be considered unethical behavior.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

34) The IMA Standards of Ethical Practice include confidentiality, competence, credibility, and integrity.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

35) Which of the following is one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?

- A) objectivity
- B) environmental sensitivity
- C) technicality
- D) confidentiality

Answer: D

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

36) Seria, Inc. has received a bulk order from an overseas client. As a result, the reported earnings of this year are expected to be significantly higher than the estimates of financial analysts. Joshua, an accountant at Seria, tells this to one of his friends. Which of the IMA standards has Joshua violated?

- A) objectivity
- B) competence
- C) confidentiality
- D) technicality

Answer: C

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

37) You did not understand what the term accrual meant and failed to accrue the interest due at the end of the year on the company's bonds. Which of the IMA standards appears to have been violated here?

- A) integrity
- B) confidentiality
- C) competence
- D) objectivity

Answer: C

Diff: 1

LO: 16-1

AACSB: Ethical understanding and reasoning

AICPA Functional: Reporting

PE Question Type: Concept

H2: Ethical Standards

## Learning Objective 16-2

1) Service companies sell their time, skills, and knowledge.

Answer: TRUE

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Service Companies

2) The income statement of a service company will most likely include \_\_\_\_\_.

A) salaries expense

B) factory overhead

C) cost of goods sold

D) direct materials

Answer: A

Diff: 1

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Service Companies

3) Which of the following is true of service companies?

A) All costs of service companies are product costs.

B) Service companies modify and resell products they buy from manufacturers.

C) Revenues of service companies are only recorded on cash receipt.

D) Service companies carry no inventories of products for sale.

Answer: D

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Service Companies

4) Which of the following is most likely a service company?

A) a law firm

B) a car dealership

C) a grocery store

D) a bakery

Answer: A

Diff: 1

LO: 16-2

AACSB: Analytical thinking

AICPA Functional: Reporting

PE Question Type: Critical thinking

H2: Service Companies

5) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned \$550,000 in revenues and incurred the following operating costs from 340 customers:

|                                |          |
|--------------------------------|----------|
| Manager's salary               | \$50,000 |
| Gym Rent                       | 60,000   |
| Depreciation Expense—Equipment | 25,000   |
| Office Supplies Expense        | 30,000   |
| Utilities Expense              | 89,700   |
| Trainer's Salary               | 25,000   |

Required: Prepare Star Health's income statement for the month of October.

Answer: Revenue

Service Revenue \$550,000

Expenses

Manager's salary \$50,000

Gym Rent 60,000

Depreciation Expense—Equipment 25,000

Office Supplies 30,000

Utilities Expense 89,700

Trainer's Salary 25,000

Total Expenses 279,700

Operating Income \$270,300

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Service Companies

6) Unlike merchandising companies, income statements of service companies include cost of goods sold as a line item.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Merchandising Companies

7) Royal, Inc. purchases each unit of product X for \$100 and can sell it in the market for \$135. The price of the product for Royal would be \$100.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies

8) Merchandising companies, like service companies, do not have a Cost of Goods Sold account.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Merchandising Companies

9) Selling and administrative expenses are subtracted from gross profit to obtain operating income.

Answer: TRUE

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Merchandising Companies

10) For external reporting purposes, GAAP requires companies to treat period costs as assets.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies

11) The primary activity of manufacturing companies is to purchase goods from a wholesaler and resell them.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies

12) One of the primary activities of Rex, Inc. is to purchase hats from Viva, Inc. in Texas and sell them to its customers in Washington for a profit. It is likely that Rex is a \_\_\_\_\_.

A) manufacturing company

B) hybrid company

C) service company

D) merchandising company

Answer: D

Diff: 1

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Concept

H2: Merchandising Companies

13) Product costs are expensed \_\_\_\_\_.

- A) when the products are consumed or sold
- B) when the accounting period they are incurred in comes to an end
- C) when the products are transferred to the Work-in-Process Inventory account
- D) when the market value of products goes above the recorded value

Answer: A

Diff: 1

LO: 16-2

AICPA Functional: Leverage technology to develop and enhance functional competencies

PE Question Type: Concept

H2: Merchandising Companies

14) Which of the following is true of product costs?

- A) They are expensed in the period they are paid.
- B) For external reporting, GAAP requires that they be expensed before the products are sold.
- C) They are first recorded in an inventory account.
- D) For merchandising companies, product costs do not include freight costs.

Answer: C

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies

15) Crystal, Inc. is a merchandiser of stone ornaments. The company sold 8,000 units during the year. The company has provided the following information:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$593,000 |
| Purchases (excluding Freight In)    | 304,000   |
| Selling and Administrative Expenses | 68,000    |
| Freight In                          | 14,000    |
| Beginning Merchandise Inventory     | 46,000    |
| Ending Merchandise Inventory        | 42,000    |

What is the operating income for the year? (Round your answer to the nearest cent.)

- A) \$203,000
- B) \$322,000
- C) \$271,000
- D) \$525,000

Answer: A

Explanation: A) Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = \$46,000 + \$304,000 + \$14,000 - \$42,000 = \$322,000

Operating Income = Sales Revenue - Cost of Goods Sold - Selling and Administrative Expenses = \$593,000 - \$322,000 - \$68,000 = \$203,000

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Merchandising Companies

16) Define product cost. How does a merchandising company treat these costs?

Answer: Product cost is the cost of purchasing or making a product. The cost is recorded as an asset and then expensed when the product is sold.

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies

17) Define period cost. Give three examples of period costs of a merchandising company.

Answer: Period cost is an operating cost that is expensed in the accounting period in which it is incurred. Examples include sales staff salaries, advertising, store utilities, office rent, office equipment depreciation, property taxes and insurance for the office, and delivery expenses.

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Merchandising Companies



18) Manufacturing companies have inventory accounts, but merchandising companies do not.

Answer: FALSE

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Manufacturing Companies

19) Manufacturing companies produce their own products, but merchandising companies do not.

Answer: TRUE

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Manufacturing Companies

20) A company that uses labor, equipment, supplies, and facilities to convert raw materials into finished products is a \_\_\_\_\_.

A) merchandising company

B) manufacturing company

C) service company

D) trading company

Answer: B

Diff: 1

LO: 16-2

AICPA Functional: Reporting

PE Question Type: Concept

H2: Manufacturing Companies

21) Goods that have been started in the manufacturing process but are not yet complete are included in the \_\_\_\_\_.

A) Finished Goods Inventory account

B) Work-in-Process Inventory account

C) Raw Materials Inventory account

D) Cost of Goods Sold account

Answer: B

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

22) Which of the following would appear as a line item on the income statements of both a merchandiser and a manufacturer?

- A) Direct Labor
- B) Cost of Goods Manufactured
- C) Direct Materials
- D) Cost of Goods Sold

Answer: D

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

23) Damsel, Inc. is a large manufacturer of auto tires. Damsel has provided the following information:

|                                    |          |
|------------------------------------|----------|
| Sales Revenue                      | \$75,000 |
| Beginning Finished Goods Inventory | 28,000   |
| Cost of Goods Sold                 | 36,500   |
| Cost of Goods Manufactured         | 43,000   |

Calculate the amount of ending Finished Goods Inventory reported on Damsel's balance sheet.

- A) \$32,000
- B) \$71,000
- C) \$34,500
- D) \$6,500

Answer: C

Explanation: C)

|                                    |                 |
|------------------------------------|-----------------|
| Beginning Finished Goods Inventory | \$28,000        |
| Add: Cost of Goods Manufactured    | <u>43,000</u>   |
| Cost of Goods Available for Sale   | 71,000          |
| Less: Cost of Goods Sold           | <u>36,500</u>   |
| Ending Finished Goods Inventory    | <u>\$34,500</u> |

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

24) The balance sheet of a \_\_\_\_\_ company will include Work-in-Process Inventory as a line item.

- A) manufacturing
- B) merchandising
- C) service
- D) trading

Answer: A

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

25) Partial income statements of Company A and Company B are provided below:

**Company A**

|                   |               |               |
|-------------------|---------------|---------------|
| Revenue           |               | \$80,000      |
| Expenses:         |               |               |
| Utilities Expense | \$5,000       |               |
| Salaries Expense  | 15,000        |               |
| Rent Expense      | <u>3,2000</u> |               |
| Total Expenses    |               | <u>23,700</u> |
| Operating Income  |               | \$56,300      |

**Company B**

|                                 |                |               |
|---------------------------------|----------------|---------------|
| Revenue                         |                | \$50,000      |
| Cost of Goods Sold:             |                |               |
| Beginning Merchandise Inventory | \$4,000        |               |
| Purchases and Freight In        | 23,000         |               |
| Ending Merchandise Inventory    | <u>(5,500)</u> |               |
| Cost of Goods Sold              |                | <u>21,500</u> |
| Gross Profit                    |                | \$28,500      |

Which of the following statements is true?

- A) Company A is a merchandising company.
- B) Company B is a manufacturing company.
- C) Company A is a manufacturing company.
- D) Company A is a service company.

Answer: D

Diff: 1

LO: 16-2

AACSB: Analytical thinking

AICPA Functional: Reporting

PE Question Type: Critical thinking

H2: Manufacturing Companies

26) The Work-in-Process Inventory account includes the \_\_\_\_\_.

- A) goods that are ready to be sold
- B) goods that are partially completed
- C) goods that have been sold in the market
- D) goods that are damaged during production

Answer: B

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

27) Which of the following is true of Finished Goods Inventory?

- A) Finished Goods Inventory is an account used by a manufacturer and includes completed goods that have not yet been sold.
- B) Finished Goods Inventory is an account used by a merchandiser and includes completed goods that have not yet been sold.
- C) Finished Goods Inventory is an account used by service companies in lieu of raw materials inventory.
- D) Finished Goods Inventory is an account used by a manufacturer in lieu of raw materials inventory.

Answer: A

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

28) Which of the following formulas represents cost of goods sold for a merchandising business?

- A) Beginning Merchandise Inventory - Ending Merchandise Inventory = Cost of Goods Sold
- B) Purchases and Freight In - Ending Merchandise Inventory = Cost of Goods Sold
- C) Ending Merchandise Inventory + Purchases and Freight In - Beginning Merchandise Inventory = Cost of Goods Sold
- D) Beginning Merchandise Inventory + Purchases and Freight In - Ending Merchandise Inventory = Cost of Goods Sold

Answer: D

Diff: 1

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

29) Lakeside Manufacturing provided the following information for the month ended March 31:

|                                    |          |
|------------------------------------|----------|
| Sales Revenue                      | \$26,000 |
| Beginning Finished Goods Inventory | 8,000    |
| Ending Finished Goods Inventory    | 13,500   |
| Cost of Goods Manufactured         | 15,600   |

Compute cost of goods available for sale.

A) \$15,600

B) \$29,100

C) \$23,600

D) \$10,100

Answer: C

Explanation: C)

Lakeside Manufacturing  
Income Statement  
Month Ended March 31, 20XX

Revenues:

|               |          |
|---------------|----------|
| Sales Revenue | \$26,000 |
|---------------|----------|

Cost of Goods Sold

|                                    |         |
|------------------------------------|---------|
| Beginning Finished Goods Inventory | \$8,000 |
|------------------------------------|---------|

|                            |               |
|----------------------------|---------------|
| Cost of Goods Manufactured | <u>15,600</u> |
|----------------------------|---------------|

|                                  |        |
|----------------------------------|--------|
| Cost of Goods Available for Sale | 23,600 |
|----------------------------------|--------|

|                                 |                 |
|---------------------------------|-----------------|
| Ending Finished Goods Inventory | <u>(13,500)</u> |
|---------------------------------|-----------------|

|                    |               |
|--------------------|---------------|
| Cost of Goods Sold | <u>10,100</u> |
|--------------------|---------------|

|              |          |
|--------------|----------|
| Gross Profit | \$15,900 |
|--------------|----------|

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

30) Poolside Manufacturing provided the following information for the month ended March 31:

|                                    |          |
|------------------------------------|----------|
| Sales Revenue                      | \$22,000 |
| Beginning Finished Goods Inventory | 17,000   |
| Ending Finished Goods Inventory    | 11,500   |
| Cost of Goods Manufactured         | 16,600   |

Compute cost of goods sold.

A) \$16,600

B) \$11,100

C) \$22,100

D) \$28,100

Answer: C

Explanation: C)

Poolside Manufacturing  
Income Statement  
Month Ended March 31, 20XX

Revenues:

|               |          |
|---------------|----------|
| Sales Revenue | \$22,000 |
|---------------|----------|

Cost of Goods Sold

|                                    |          |
|------------------------------------|----------|
| Beginning Finished Goods Inventory | \$17,000 |
|------------------------------------|----------|

|                            |               |
|----------------------------|---------------|
| Cost of Goods Manufactured | <u>16,600</u> |
|----------------------------|---------------|

|                                  |        |
|----------------------------------|--------|
| Cost of Goods Available for Sale | 33,600 |
|----------------------------------|--------|

|                                 |                 |
|---------------------------------|-----------------|
| Ending Finished Goods Inventory | <u>(11,500)</u> |
|---------------------------------|-----------------|

|                    |               |
|--------------------|---------------|
| Cost of Goods Sold | <u>22,100</u> |
|--------------------|---------------|

|              |         |
|--------------|---------|
| Gross Profit | \$(100) |
|--------------|---------|

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

31) Riverside Manufacturing provided the following information for the month ended March 31:

|                                    |          |
|------------------------------------|----------|
| Sales Revenue                      | \$27,000 |
| Beginning Finished Goods Inventory | 17,000   |
| Ending Finished Goods Inventory    | 7,500    |
| Cost of Goods Manufactured         | 11,600   |

Compute gross profit.

- A) \$5,900
- B) \$15,400
- C) \$24,900
- D) \$7,900

Answer: A

Explanation: A)

Riverside Manufacturing  
Income Statement  
Month Ended March 31, 20XX

Revenues:

Sales Revenue \$27,000

Cost of Goods Sold

Beginning Finished Goods Inventory \$17,000

Cost of Goods Manufactured 11,600

Cost of Goods Available for Sale 28,600

Ending Finished Goods Inventory (7,500)

Cost of Goods Sold 21,100

Gross Profit \$5,900

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

32) New Hope, Inc. is a merchandiser of stone ornaments. It sold 15,000 units during the year. The company has provided the following information:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$525,000 |
| Purchases (excluding Freight In)    | 347,000   |
| Selling and Administrative Expenses | 36,500    |
| Freight In                          | 15,500    |
| Beginning Merchandise Inventory     | 42,000    |
| Ending Merchandise Inventory        | 55,500    |

How much is the gross profit for the year?

- A) \$212,500
- B) \$349,000
- C) \$176,000
- D) \$178,000

Answer: C

Explanation: C) Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = \$42,000 + \$347,000 + \$15,500 - 55,500 = \$349,000

Gross Profit = Sales Revenue - Cost of Goods Sold = \$525,000 - \$349,000 = \$176,000

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies



33) Robbinsdale, Inc. is a merchandiser of stone ornaments. The company sold 8,000 units during the year. The company has provided the following information:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$559,000 |
| Purchases (excluding freight in)    | 303,000   |
| Selling and Administrative Expenses | 67,000    |
| Freight In                          | 14,000    |
| Beginning Merchandise Inventory     | 46,000    |
| Ending Merchandise Inventory        | 43,000    |

What is the cost of goods available for sale for the year?

- A) \$363,000
- B) \$320,000
- C) \$349,000
- D) \$335,000

Answer: A

Explanation: A) Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = \$46,000 + \$303,000 + \$14,000 = \$363,000

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

34) Bloomington, Inc. is a merchandiser of stone ornaments. The company sold 7,000 units during the year. The company has provided the following information:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$550,000 |
| Purchases (excluding freight in)    | 304,000   |
| Selling and Administrative Expenses | 69,000    |
| Freight In                          | 15,000    |
| Beginning Merchandise Inventory     | 43,000    |
| Ending Merchandise Inventory        | 42,000    |

What is the cost of goods sold for the year?

- A) \$362,000
- B) \$320,000
- C) \$318,000
- D) \$305,000

Answer: B

Explanation: B) Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = \$43,000 + \$304,000 + \$15,000 - \$42,000 = \$320,000

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

35) Amber Corporation has provided the following information of its operating activities for the year:

|                                     |           |
|-------------------------------------|-----------|
| Merchandise Inventory, January 1    | \$150,000 |
| Merchandise Inventory, December 31  | 75,000    |
| Purchases                           | 854,000   |
| Selling and Administrative Expenses | 65,000    |
| Sales Revenue                       | 1,000,000 |

Required: Prepare Amber's income statement for the year ended December 31. Use the format provided below:

|                                     |  |  |
|-------------------------------------|--|--|
| Sales Revenue                       |  |  |
| Cost of Goods Sold                  |  |  |
| Beginning Inventory                 |  |  |
| Purchases                           |  |  |
| Cost of Goods Available for Sale    |  |  |
| Ending Inventory                    |  |  |
| Cost of Goods Sold                  |  |  |
| Gross Profit                        |  |  |
| Selling and Administrative Expenses |  |  |
| Operating Income                    |  |  |

Answer:

Amber Corporation  
Income Statement  
Year Ended December 31, 20XX

|                                     |                 |                |
|-------------------------------------|-----------------|----------------|
| Sales Revenue                       |                 | \$1,000,000    |
| Cost of Goods Sold                  |                 |                |
| Beginning Inventory                 | \$150,000       |                |
| Purchases                           | <u>854,000</u>  |                |
| Cost of Goods Available for Sale    | 1,004,000       |                |
| Ending Inventory                    | <u>(75,000)</u> |                |
| Cost of Goods Sold                  |                 | <u>929,000</u> |
| Gross Profit                        |                 | 71,000         |
| Selling and Administrative Expenses |                 | <u>65,000</u>  |
| Operating Income                    |                 | <u>\$6,000</u> |

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

36) Planet Manufacturing provided the following information for the month ended March 31:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$ 22,000 |
| Beginning Finished Goods Inventory  | 7,000     |
| Ending Finished Goods Inventory     | 6,500     |
| Cost of Goods Manufactured          | 10,600    |
| Selling and Administrative Expenses | 5,125     |

Prepare the income statement.

Answer:

Planet Manufacturing  
Income Statement  
Month Ended March 31, 20XX

Revenues:

Sales Revenue \$22,000

Cost of Goods Sold

Beginning Finished Goods Inventory \$7,000

Cost of Goods Manufactured 10,600

Cost of Goods Available for Sale 17,600

Ending Finished Goods Inventory (6,500)

Cost of Goods Sold 11,100

Gross Profit 10,900

Selling and Administrative Expenses 5,125

Operating Income \$5,775

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

37) Excellent, Inc. sells accounting textbooks. The following information summarizes Excellent's operating activities for the year:

|                                     |          |
|-------------------------------------|----------|
| Merchandise Inventory, January 1    | \$10,000 |
| Merchandise Inventory, December 31  | 7,000    |
| Purchases                           | 95,000   |
| Selling and Administrative Expenses | 65,000   |
| Sales Revenue                       | 180,000  |

Required: Prepare Excellent, Inc.'s income statement for the year ended December 31.

Answer:

Excellent, Inc.  
Income Statement  
Year Ended December 31, 20XX

|                                     |                |                 |
|-------------------------------------|----------------|-----------------|
| Sales Revenue                       |                | \$180,000       |
| Cost of Goods Sold                  |                |                 |
| Beginning Inventory                 | \$10,000       |                 |
| Purchases                           | <u>95,000</u>  |                 |
| Cost of Goods Available for Sale    | 105,000        |                 |
| Ending Inventory                    | <u>(7,000)</u> |                 |
| Cost of Goods Sold                  |                | <u>98,000</u>   |
| Gross Profit                        |                | 82,000          |
| Selling and Administrative Expenses |                | <u>65,000</u>   |
| Operating Income                    |                | <u>\$17,000</u> |

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

38) Simons, Inc. sells plasticware. The following information summarizes Simons' operating activities for the year:

|                                      |           |
|--------------------------------------|-----------|
| Utilities Expense                    | \$ 65,000 |
| Rent Expense                         | 10,000    |
| Sales Commissions Expense            | 32,500    |
| Purchases of Merchandise             | 260,000   |
| Merchandise Inventory on January 1   | 65,000    |
| Merchandise Inventory on December 31 | 97,500    |
| Sales Revenue                        | 650,000   |

Prepare an income statement for Simons, Inc., a merchandiser, for the year ended December 31 using the format below:

|                                  |  |  |
|----------------------------------|--|--|
| Sales Revenue                    |  |  |
| Cost of Goods Sold:              |  |  |
| Beginning Inventory              |  |  |
| Purchases                        |  |  |
| Cost of Goods Available for Sale |  |  |
| Ending Inventory                 |  |  |
| Cost of Goods Sold               |  |  |
| Gross Profit                     |  |  |
| Selling Expenses:                |  |  |
| Sales Commissions Expense        |  |  |
| Administrative Expenses:         |  |  |
| Rent Expense                     |  |  |
| Utilities Expense                |  |  |
| Total Operating Expenses         |  |  |
| Operating Income                 |  |  |

Answer:

Simons, Inc.  
Income Statement  
Year Ended December 31, 20XX

|                                  |          |                  |
|----------------------------------|----------|------------------|
| Sales Revenue                    |          | \$650,000        |
| Cost of Goods Sold:              |          |                  |
| Beginning Inventory              | \$65,000 |                  |
| Purchases                        | 260,000  |                  |
| Cost of Goods Available for Sale | 325,000  |                  |
| Ending Inventory                 | (97,500) |                  |
| Cost of Goods Sold               |          | <u>227,500</u>   |
| Gross Profit                     |          | 422,500          |
| Selling Expenses:                |          |                  |
| Sales Commissions Expense        |          | 32,500           |
| Administrative Expenses:         |          |                  |
| Rent Expense                     | 10,000   |                  |
| Utilities Expense                | 65,000   | 75,000           |
| Total Operating Expenses         |          | <u>107,500</u>   |
| Operating Income                 |          | <u>\$315,000</u> |

Diff: 2

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

39) Best, Inc., a merchandiser, sells office supplies. The following information summarizes Best's operating activities during the year:

|                                      |         |
|--------------------------------------|---------|
| Utilities Expense                    | \$6,000 |
| Rent for Store Expense               | 8,000   |
| Sales Commissions Expense            | 4,500   |
| Purchases of Merchandise             | 54,000  |
| Merchandise Inventory on January 1   | 30,000  |
| Merchandise Inventory on December 31 | 20,500  |
| Sales Revenue                        | 108,000 |

Required: Prepare an income statement for Best, Inc. for the year ended December 31, using the format below.

|                                  |  |  |
|----------------------------------|--|--|
| Sales Revenue                    |  |  |
| Cost of Goods Sold:              |  |  |
| Beginning Inventory              |  |  |
| Purchases                        |  |  |
| Cost of Goods Available for Sale |  |  |
| Ending Inventory                 |  |  |
| Cost of Goods Sold               |  |  |
| Gross Profit                     |  |  |
| Selling Expenses:                |  |  |
| Sales Commissions Expense        |  |  |
| Administrative Expenses:         |  |  |
| Rent Expense                     |  |  |
| Utilities Expense                |  |  |
| Total Operating Expenses         |  |  |
| Operating Income                 |  |  |



Answer:

Best, Inc.  
Income Statement  
Year Ended December 31, 20XX

|                                  |                 |                 |
|----------------------------------|-----------------|-----------------|
| Sales Revenue                    |                 | \$108,000       |
| Cost of Goods Sold:              |                 |                 |
| Beginning Inventory              | \$30,000        |                 |
| Purchases                        | <u>54,000</u>   |                 |
| Cost of Goods Available for Sale | 84,000          |                 |
| Ending Inventory                 | <u>(20,500)</u> |                 |
| Cost of Goods Sold               |                 | <u>63,500</u>   |
| Gross Profit                     |                 | 44,500          |
| Selling Expenses:                |                 |                 |
| Sales Commissions Expense        | 4,500           |                 |
| Administrative Expenses:         |                 |                 |
| Rent Expense                     | 8,000           |                 |
| Utilities Expense                | <u>6,000</u>    |                 |
| Total Operating Expenses         |                 | <u>18,500</u>   |
| Operating Income                 |                 | <u>\$26,000</u> |

Diff: 3

LO: 16-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Manufacturing Companies

40) List the three kinds of inventory accounts that are used by manufacturing companies. Briefly discuss what each account includes.

Answer: Raw Materials Inventory includes materials used to make a product.

Work-in-Process Inventory includes goods that are in the manufacturing process but are not yet complete.

Finished Goods Inventory includes completed good that have not yet been sold.

Diff: 1

LO: 16-2

AICPA Functional: Measurement

PE Question Type: Concept

H2: Manufacturing Companies

## Learning Objective 16-3

1) The cost of direct materials cannot easily be traced to the manufactured product, and therefore, it is a component of manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Direct and Indirect Costs

2) Direct costs and indirect costs can be easily traced directly to a cost object.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Direct and Indirect Costs

3) The wages of manufacturing plant janitors are considered to be non-manufacturing overhead costs as these costs are not directly related to the manufacturing process.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Critical thinking

H2: Direct and Indirect Costs

4) In manufacturing, the cost objects are often units of product.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Direct and Indirect Costs

5) Which of the following will most likely be considered an indirect material cost for a bakery?

A) spices

B) flour

C) milk

D) eggs

Answer: A

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Direct and Indirect Costs

6) Anything for which managers want a separate measurement of cost is called a \_\_\_\_\_.

- A) responsibility center
- B) cost object
- C) profit object
- D) conversion cost

Answer: B

Diff: 1

LO: 16-3

AICPA Functional: Reporting

PE Question Type: Concept

H2: Direct and Indirect Costs

7) Define direct cost.

Answer: A direct cost is a cost that can be easily and cost-effectively traced to a cost object.

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Direct and Indirect Costs

8) Define indirect cost.

Answer: An indirect cost is a cost that cannot be easily or cost-effectively traced to a cost object.

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Direct and Indirect Costs

9) Product costs, such as factory overhead, should be treated as an asset until the product is sold.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

10) Manufacturing overhead includes all manufacturing costs, such as direct labor and direct materials.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

11) Manufacturing overhead includes indirect manufacturing costs, such as insurance and depreciation on the factory building.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

12) All costs incurred in the manufacture of final products are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

13) In a manufacturing company, wages and benefits of assembly line workers are period costs.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

14) In a manufacturing company, wages and benefits of assembly line workers are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

15) In a manufacturing company, wages and benefits of factory managers are considered as product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

16) Product costs, such as direct materials, are expensed in the period they are paid.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Reporting

PE Question Type: Concept

H2: Product Costs

17) The three categories of period costs are direct materials, direct labor, and manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

18) The salary of a manufacturing plant manager will be included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

19) In a manufacturing company, the salary of the sales staff is an example of period cost.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

20) In a manufacturing plant, indirect materials costs such as lubricants and cleaning fluids are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

21) Indirect materials costs are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

22) For a manufacturer, rent paid for an office building is an example of a period cost.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

23) Factory rent, as well as factory property taxes and insurance, are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

24) Freight costs paid to ship raw materials to a company warehouse are considered product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

25) Sales commissions are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

26) In a manufacturing company, advertising and marketing costs are examples of period costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

27) In a manufacturing company, advertising and marketing costs are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

28) In a manufacturing company, accounting, legal, and administrative costs are typical examples of product costs.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

29) In a manufacturing company, administrative costs are included in period costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

30) Repair and maintenance costs for manufacturing equipment are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

31) Repair and maintenance costs for manufacturing equipment are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

32) Repair and maintenance costs of vehicles used to deliver products to customers are product costs.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

33) Repair and maintenance costs of vehicles used to deliver products to the customers are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

34) Period costs are the \_\_\_\_\_.

A) product costs that must be paid in the accounting period in which they are incurred

B) costs that are incurred and expensed during the same accounting period

C) costs related to production of products the company purchases and sells

D) same as manufacturing overhead costs

Answer: B

Diff: 2

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

35) Which of the following is an example of a period cost for a manufacturing company?

- A) advertising expense
- B) depreciation on factory equipment
- C) indirect materials
- D) property taxes for the factory

Answer: A

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

36) Which of the following is a part of manufacturing overhead?

- A) cost of raw materials
- B) wages of assembly line workers
- C) factory insurance
- D) depreciation on office furniture

Answer: C

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

37) Which of the following is a product cost for a manufacturing company?

- A) salary of administrative staff
- B) wages paid to factory janitor
- C) commissions paid to sales staff
- D) depreciation on corporate building

Answer: B

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

38) Which of the following is a period cost for a manufacturing company?

- A) office rent
- B) wages of factory janitor
- C) insurance cost of production equipment
- D) raw materials

Answer: A

Diff: 2

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs



39) For a manufacturing company, which of the following is a period cost?

- A) direct materials used
- B) office rent
- C) wages expense of factory workers
- D) indirect materials used

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

40) Which of the following is an example of direct labor cost in a factory?

- A) wages of assembly line personnel
- B) salary of vice president of production
- C) wages of factory security guard
- D) salary of production manager

Answer: A

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

41) Which of the following will be included in manufacturing overhead costs?

- A) indirect labor and indirect materials used
- B) salaries of salesmen
- C) direct materials and direct labor
- D) delivery costs to ship goods to customers

Answer: A

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

42) Manufacturing overhead is also referred to as \_\_\_\_\_.

- A) indirect manufacturing costs
- B) direct manufacturing costs
- C) prime costs
- D) period costs

Answer: A

Diff: 2

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

43) Kyanite Corporation, a manufacturer, reports costs for the year as follows:

|                         |           |
|-------------------------|-----------|
| Direct Materials Used   | \$735,000 |
| Wages to Line Workers   | 510,000   |
| Office Rent             | 26,000    |
| Indirect Materials Used | 700,000   |

How much is the total period costs for Kyanite?

- A) \$735,000
- B) \$510,000
- C) \$26,000
- D) \$700,000

Answer: C

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

44) Daryl Corporation reports costs for the year as follows:

|                         |           |
|-------------------------|-----------|
| Direct Materials Used   | \$780,000 |
| Wages to Line Workers   | 245,000   |
| Office Rent             | 33,000    |
| Indirect Materials Used | 800,000   |

How much is the total product costs for the year?

- A) \$800,000
- B) \$1,825,000
- C) \$1,858,000
- D) \$1,025,000

Answer: B

Explanation: B) Total product costs = Raw Materials + Wages to Line Workers + Indirect Materials =  
\$780,000 + \$245,000 + \$800,000 = \$1,825,000

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

45) Which of the following is a product cost?

- A) sales commissions
- B) CEO's salary
- C) delivery van depreciation
- D) depreciation on production equipment

Answer: D

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

46) Which of the following correctly describes the accounting for indirect labor costs?

- A) Indirect labor costs are product costs and are expensed as incurred.
- B) Indirect labor costs are period costs and are expensed as incurred.
- C) Indirect labor costs are product costs and are expensed when the manufactured product is sold.
- D) Indirect labor costs are period costs and are expensed when the manufactured product is sold.

Answer: C

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

47) Which of the following correctly describes the accounting for factory depreciation?

- A) Factory depreciation is a product cost and is expensed as incurred.
- B) Factory depreciation is a period cost and is expensed as incurred.
- C) Factory depreciation is a product cost and is expensed when the manufactured product is sold.
- D) Factory depreciation is a period cost and is expensed when the manufactured product is sold.

Answer: C

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

48) Which of the following correctly describes the accounting for administrative expenses of a manufacturing company?

- A) Administrative expenses are product costs and are expensed as incurred.
- B) Administrative expenses are period costs and are expensed as incurred.
- C) Administrative expenses are product costs and are expensed when the manufactured product is sold.
- D) Administrative expenses are period costs and are expensed when the manufactured product is sold.

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

49) Which of the following correctly describes the accounting for advertising costs?

- A) Advertising costs are product costs and are expensed as incurred.
- B) Advertising costs are period costs and are expensed as incurred.
- C) Advertising costs are product costs and are expensed when the manufactured product is sold.
- D) Advertising costs are period costs and are expensed when the manufactured product is sold.

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

50) The following information relates to Webster, Inc.:

|                                      |          |
|--------------------------------------|----------|
| Advertising Costs                    | \$10,600 |
| Administrative Salaries              | 17,600   |
| Delivery Vehicle Depreciation        | 1,300    |
| Factory Repair and Maintenance       | 200      |
| Indirect Labor                       | 10,500   |
| Indirect Materials                   | 10,000   |
| Manufacturing Equipment Depreciation | 1,000    |
| Office Rent                          | 51,000   |
| President's Salary                   | 2,500    |
| Sales Revenue                        | 530,000  |
| Sales Salary                         | 4,700    |

How much were Webster's period costs?

- A) \$87,700
- B) \$21,700
- C) \$534,700
- D) \$7,200

Answer: A

Explanation: A)

|                               |                 |
|-------------------------------|-----------------|
| Advertising Costs             | \$10,600        |
| President's Salary            | 2,500           |
| Office Rent                   | 51,000          |
| Sales Salary                  | 4,700           |
| Delivery Vehicle Depreciation | 1,300           |
| Administrative Salaries       | <u>17,600</u>   |
| Total Period Cost             | <u>\$87,700</u> |

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

51) The following information relates to Washington, Inc.:

|                                      |          |
|--------------------------------------|----------|
| Advertising Costs                    | \$10,600 |
| Sales Salary                         | 10,000   |
| Sales Revenue                        | 500,000  |
| President's Salary                   | 230,000  |
| Office Rent                          | 60,500   |
| Manufacturing Equipment Depreciation | 1,200    |
| Indirect Materials Used              | 8,000    |
| Indirect Labor                       | 13,000   |
| Factory Repair and Maintenance       | 920      |
| Direct Materials Used                | 27,500   |
| Direct Labor                         | 36,000   |
| Delivery Vehicle Depreciation        | 1,550    |
| Administrative Salaries              | 22,000   |

How much were Washington's product costs?

A) \$604,650

B) \$252,000

C) \$510,600

D) \$86,620

Answer: D

Explanation: D)

|                                      |                 |
|--------------------------------------|-----------------|
| Indirect Labor                       | \$13,000        |
| Indirect Materials                   | 8,000           |
| Factory Repair and Maintenance       | 920             |
| Manufacturing Equipment Depreciation | 1,200           |
| Direct Materials                     | 27,500          |
| Direct Labor                         | <u>36,000</u>   |
| Total Product Cost                   | <u>\$86,620</u> |

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

52) The following information relates to Carried Away Hot Air Balloons, Inc.:

|                                      |          |
|--------------------------------------|----------|
| Advertising Costs                    | \$10,400 |
| Sales Salary                         | 13,800   |
| Sales Revenue                        | 630,000  |
| President's Salary                   | 52,000   |
| Office Rent                          | 67,000   |
| Manufacturing Equipment Depreciation | 3,000    |
| Indirect Materials Used              | 6,600    |
| Indirect Labor                       | 13,300   |
| Factory Repair and Maintenance       | 820      |
| Direct Materials Used                | 31,070   |
| Direct Labor                         | 31,900   |
| Delivery Vehicle Depreciation        | 810      |
| Administrative Salaries              | 24,700   |

How much was Carried Away's manufacturing overhead?

A) \$19,900

B) \$20,720

C) \$23,720

D) \$62,970

Answer: C

Explanation: C)

|                                      |                 |
|--------------------------------------|-----------------|
| Indirect Labor                       | \$13,300        |
| Indirect Materials                   | 6,600           |
| Factory Repair and Maintenance       | 820             |
| Manufacturing Equipment Depreciation | 3,000           |
| Total Manufacturing Overhead         | <u>\$23,720</u> |

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

53) The following information was obtained from Fizz, Inc.:

|                                      |          |
|--------------------------------------|----------|
| Advertising Costs                    | \$11,600 |
| Indirect Labor                       | 8,000    |
| CEO's Salary                         | 470,000  |
| Direct Labor                         | 53,000   |
| Indirect Materials Used              | 8,000    |
| Direct Materials Used                | 390,000  |
| Factory Utilities                    | 840      |
| Factory Janitorial Costs             | 1,000    |
| Manufacturing Equipment Depreciation | 1,700    |
| Delivery Vehicle Depreciation        | 2,110    |
| Administrative Wages and Salaries    | 22,300   |

How much were Fizz's period costs?

A) \$462,540

B) \$506,010

C) \$13,710

D) \$503,900

Answer: B

Explanation: B)

|                   |          |
|-------------------|----------|
| Advertising Costs | \$11,600 |
|-------------------|----------|

|              |         |
|--------------|---------|
| CEO's Salary | 470,000 |
|--------------|---------|

|                               |       |
|-------------------------------|-------|
| Delivery Vehicle Depreciation | 2,110 |
|-------------------------------|-------|

|                                   |               |
|-----------------------------------|---------------|
| Administrative Wages and Salaries | <u>22,300</u> |
|-----------------------------------|---------------|

|                    |                  |
|--------------------|------------------|
| Total Period Costs | <u>\$506,010</u> |
|--------------------|------------------|

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs



54) The following information was obtained from MCB Manufacturing, Inc.:

|                                      |         |
|--------------------------------------|---------|
| Advertising Costs                    | \$9,900 |
| Indirect Labor                       | 53,000  |
| CEO's Salary                         | 620,000 |
| Direct Labor                         | 40,000  |
| Indirect Materials Used              | 7,500   |
| Direct Materials Used                | 65,000  |
| Factory Utilities                    | 760     |
| Factory Janitorial Costs             | 1,200   |
| Manufacturing Equipment Depreciation | 3,100   |
| Delivery Vehicle Depreciation        | 1,000   |
| Administrative Wages and Salaries    | 24,000  |

Calculate MCB Manufacturing's total product costs.

A) \$170,560

B) \$654,900

C) \$105,000

D) \$165,500

Answer: A

Explanation: A)

|                                      |                  |
|--------------------------------------|------------------|
| Indirect labor                       | \$53,000         |
| Direct Labor                         | 40,000           |
| Indirect Materials                   | 7,500            |
| Direct Materials Used                | 65,000           |
| Factory Utilities                    | 760              |
| Factory Janitorial Costs             | 1,200            |
| Manufacturing Equipment Depreciation | <u>3,100</u>     |
| Total Product Costs                  | <u>\$170,560</u> |

Diff: 2

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

55) Which of the following would be considered a product cost for a manufacturing business?

A) research and development

B) property taxes on the factory

C) advertising

D) delivery costs

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

56) Which of the following would be considered a product cost for a manufacturing company?

- A) salary of the sales manager
- B) salary of the CEO
- C) salaries of the accounting staff
- D) salary of the production manager

Answer: D

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

57) Which of the following would be considered a product cost for a manufacturing company?

- A) depreciation on delivery vehicles
- B) depreciation on administrative building furniture and fixtures
- C) depreciation on manufacturing equipment
- D) depreciation on the accounting department's computer equipment

Answer: C

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

58) Which of the following would be considered a direct labor cost for a manufacturing company?

- A) wages of the assembly line staff
- B) wages of the factory janitors
- C) wages of the factory manager
- D) salaries of the internal auditors

Answer: A

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

59) Which of the following would be included as indirect manufacturing costs for a manufacturing company?

- A) sales commissions
- B) fuel and maintenance for delivery vehicles
- C) wages of the assembly line workers
- D) wages of the factory manager

Answer: D

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

60) Which of the following would be included as manufacturing overhead for a manufacturing company?

- A) direct materials cost
- B) indirect materials cost
- C) direct labor
- D) advertising

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

61) Which of the following would be considered a period cost for a manufacturing company?

- A) indirect materials
- B) factory utilities
- C) direct labor
- D) sales salaries

Answer: D

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Product Costs

62) Classify each cost of a furniture manufacturer as either product cost (PR) or period cost (PE).

| Cost                                 | PR or PE |
|--------------------------------------|----------|
| Vice president of marketing's salary |          |
| Delivery expense                     |          |
| Wood used to make tables             |          |
| Depreciation on office equipment     |          |
| Production supervisor's salary       |          |
| Factory insurance                    |          |
| Corporate office rent                |          |

Answer:

| Cost                                 | PR or PE |
|--------------------------------------|----------|
| Vice president of marketing's salary | PE       |
| Delivery expense                     | PE       |
| Wood used to make dining tables      | PR       |
| Depreciation on office equipment     | PE       |
| Production supervisor's salary       | PR       |
| Factory insurance                    | PR       |
| Corporate office rent                | PE       |

Diff: 1

LO: 16-3

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Critical thinking

H2: Product Costs

63) Define indirect materials and give two examples of indirect materials for a manufacturing company.

Answer: Indirect materials are used in making a product but either cannot be conveniently traced to specific, finished products or are not large enough to justify tracing to the specific product. Examples include glue used in making tables and manufacturing supplies.

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

64) The income statement of a manufacturing company separates the product costs from the period costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

65) Define indirect labor and give two examples of indirect labor for a manufacturing company.

Answer: Indirect labor are labor costs for activities that support the production process but either cannot be conveniently traced directly to specific finished products or are not large enough to justify tracing to the specific products. Examples include production supervisor's salary and wages of factory janitors and maintenance employees.

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Product Costs

66) Direct materials and direct labor are prime costs.

Answer: TRUE

Diff: 1

LO: 16-3

AICPA Functional: Measurement

PE Question Type: Concept

H2: Prime and Conversion Costs

67) For decision-making purposes, \_\_\_\_\_ costs are often divided into prime costs and conversion costs.

- A) fixed costs
- B) product costs
- C) period costs
- D) sunk costs

Answer: B

Diff: 2

LO: 16-3

AICPA Functional: Reporting

PE Question Type: Concept

H2: Prime and Conversion Costs

68) Which of the following is a prime cost and a conversion cost?

- A) manufacturing overhead
- B) direct materials
- C) direct labor
- D) selling expenses

Answer: C

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Prime and Conversion Costs

69) Which of the following represents the combined sum of direct labor and manufacturing overhead?

- A) conversion costs
- B) period costs
- C) prime costs
- D) fixed costs

Answer: A

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Concept

H2: Prime and Conversion Costs

70) Which of the following represents the combined sum of direct materials and direct labor?

- A) conversion costs
- B) period costs
- C) prime costs
- D) fixed costs

Answer: C

Diff: 1

LO: 16-3

AICPA Functional: Reporting

PE Question Type: Concept

H2: Prime and Conversion Costs

71) Which of the following will be classified as a conversion cost?

- A) cost of direct materials used
- B) depreciation on factory equipment
- C) salary of sales personnel
- D) depreciation on office furniture

Answer: B

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Prime and Conversion Costs

72) Which of the following would be classified as a prime cost?

- A) cost of direct materials used
- B) depreciation on factory equipment
- C) salary of sales personnel
- D) depreciation on office furniture

Answer: A

Diff: 1

LO: 16-3

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Prime and Conversion Costs

## Learning Objective 16-4

1) The cost of goods sold is added to net sales revenue to determine gross profit.

Answer: FALSE

Explanation: The cost of goods sold is subtracted from net sales revenue to determine gross profit.

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Sold

2) Jasper, Inc. reports the following cost information for March:

|                                     |          |
|-------------------------------------|----------|
| Cost of Goods Manufactured          | \$74,100 |
| Manufacturing Overhead              | 18,500   |
| Finished Goods Inventory, March 1   | 4,000    |
| Finished Goods Inventory, March 31  | 2,700    |
| Work-in-Process Inventory, March 1  | 9,800    |
| Work-in-Process Inventory, March 31 | 1,400    |
| Direct Materials Used               | 25,200   |

What is the cost of goods sold for March?

A) \$3,100

B) \$72,800

C) \$75,400

D) \$78,100

Answer: C

Explanation: C)

|                                    |                 |
|------------------------------------|-----------------|
| Finished Goods Inventory, March 1  | \$4,000         |
| Cost of Goods Manufactured         | 74,100          |
| Finished Goods Inventory, March 31 | <u>(2,700)</u>  |
| Cost of Goods Sold                 | <u>\$75,400</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Sold

3) Given the following information, determine the cost of goods sold.

|                                    |          |
|------------------------------------|----------|
| Direct Labor Incurred              | \$62,000 |
| Manufacturing Overhead Incurred    | 175,000  |
| Direct Materials Used              | 150,000  |
| Finished Goods Inventory, Jan. 1   | 198,000  |
| Finished Goods Inventory, Dec. 31  | 98,500   |
| Work-in-Process Inventory, Jan. 1  | 221,000  |
| Work-in-Process Inventory, Dec. 31 | 108,000  |

A) \$500,000

B) \$608,000

C) \$401,500

D) \$296,500

Answer: C

Explanation: C)

|                                    |                  |
|------------------------------------|------------------|
| Work-in-Process Inventory, Jan. 1  | \$221,000        |
| Direct Materials Used              | 150,000          |
| Direct Labor Incurred              | 62,000           |
| Manufacturing Overhead Incurred    | 175,000          |
| Work-in-Process Inventory, Dec. 31 | <u>(108,000)</u> |
| Cost of Goods Manufactured         | <u>\$500,000</u> |

|                                   |                  |
|-----------------------------------|------------------|
| Finished Goods Inventory, Jan. 1  | \$198,000        |
| Cost of Goods Manufactured        | 500,000          |
| Finished Goods Inventory, Dec. 31 | <u>(98,500)</u>  |
| Cost of Goods Sold                | <u>\$401,500</u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Sold



4) The cost of goods sold for Frye Manufacturing in the year was \$297,000. The January 1 Finished Goods Inventory balance was \$31,600, and the December 31 Finished Goods Inventory balance was \$25,600. Calculate the cost of goods manufactured during the year.

- A) \$322,600
- B) \$57,200
- C) \$291,000
- D) \$6,000

Answer: C

Explanation: C) Cost of goods manufactured = Cost of goods sold + Ending finished goods inventory - Beginning finished goods inventory = \$297,000 + \$25,600 - \$31,600 = \$291,000

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Sold

5) Viva, Inc. has provided the following information for the year:

|                                            |             |
|--------------------------------------------|-------------|
| Cost of Goods Manufactured                 | \$1,261,000 |
| Beginning Balance—Finished Goods Inventory | 99,000      |
| Ending Balance—Finished Goods Inventory    | 85,000      |

How much is the cost of goods sold?

- A) \$184,000
- B) \$1,275,000
- C) \$1,261,000
- D) \$1,247,000

Answer: B

Explanation: B)

|                                            |                    |
|--------------------------------------------|--------------------|
| Beginning Balance—Finished Goods Inventory | \$99,000           |
| Cost of Goods Manufactured                 | 1,261,000          |
| Ending Balance—Finished Goods Inventory    | (85,000)           |
| Cost of Goods Sold                         | <u>\$1,275,000</u> |

Diff: 1

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Sold

6) The cost of goods manufactured includes selling expenses, administrative expenses, and manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

7) The inventory of a merchandising company consists of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.

Answer: FALSE

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

8) Total manufacturing costs to account for during the year minus the ending Work-in-Process Inventory equals the cost of goods manufactured.

Answer: TRUE

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

9) Which of the following statements is true of the flow of product and period costs for a manufacturer?

A) When the manufacturing process is completed, the costs are transferred to the Work-in-Process Inventory account.

B) The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.

C) Period costs remain in inventory accounts on the balance sheet until the product is sold.

D) All product costs that have been paid are expensed and reported on the income statement at the end of the accounting period.

Answer: B

Diff: 2

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

10) Goods that are produced by a manufacturing company and are ready to sell are recorded in the \_\_\_\_\_ account.

A) Raw Materials Inventory

B) Work-in-Process Inventory

C) Manufacturing Overhead

D) Finished Goods Inventory

Answer: D

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

11) At the beginning of the year, Swift, Inc.'s Work-in-Process Inventory account had a balance of \$124,000. During the year, \$250,000 of direct materials were used in production, and \$72,000 of direct labor costs were incurred. Manufacturing overhead amounted to \$832,000. The cost of goods manufactured was \$676,000. What is the balance in the Work-in-Process Inventory account on December 31?

A) \$1,154,000

B) \$1,352,000

C) \$676,000

D) \$602,000

Answer: D

Explanation: D)

|                                          |                  |
|------------------------------------------|------------------|
| Beginning Work-in-Process Inventory      | \$124,000        |
| Direct Materials Used                    | 250,000          |
| Direct Labor                             | 72,000           |
| Manufacturing Overhead                   | <u>832,000</u>   |
| Total Manufacturing Costs to account for | 1,278,000        |
| Cost of Goods Manufactured               | <u>(676,000)</u> |
| Ending Work-in-Process Inventory         | <u>\$602,000</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

12) Selected data for Lemon Grass, Inc. for the year are provided below:

|                                    |         |
|------------------------------------|---------|
| Factory Utilities                  | \$1,000 |
| Indirect Materials Used            | 34,000  |
| Direct Materials Used              | 292,000 |
| Property Taxes on Factory Building | 5,900   |
| Sales Commissions                  | 85,000  |
| Indirect Labor Incurred            | 22,000  |
| Direct Labor Incurred              | 150,000 |
| Depreciation on Factory Equipment  | 6,800   |

What is the total manufacturing overhead?

A) \$442,000

B) \$56,000

C) \$69,700

D) \$13,700

Answer: C

Explanation: C)

|                                    |                 |
|------------------------------------|-----------------|
| Factory Utilities                  | \$1,000         |
| Indirect Materials Used            | 34,000          |
| Property Taxes on Factory Building | 5,900           |
| Indirect Labor Incurred            | 22,000          |
| Depreciation on Factory Equipment  | <u>6,800</u>    |
| Total Factory Overhead             | <u>\$69,700</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

13) Which of the following describes the cost of goods manufactured?

A) the cost of the goods that were sold during the period

B) the total cost of all goods that were completed, or partially completed during the period

C) the cost of those goods that were completed during the period

D) the total costs in inventory at the end of the period

Answer: C

Diff: 2

LO: 16-4

AACSB: Interpersonal relations and teamwork

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

14) Fire Cat, Inc. selected cost data for the year are shown below:

|                                    |           |
|------------------------------------|-----------|
| Cost of Goods Manufactured         | \$145,500 |
| Work-in-Process Inventory, Jan. 1  | 19,500    |
| Work-in-Process Inventory, Dec. 31 | 22,000    |
| Direct Materials Used              | 18,600    |

What is the total of manufacturing costs incurred by Fire Cat, Inc. during the year?

- A) \$148,000
- B) \$143,000
- C) \$22,900
- D) \$38,100

Answer: A

Explanation: A) Total manufacturing costs incurred = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = \$22,000 + \$145,500 - \$19,500 = \$148,000

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

15) D&I Supplies, Inc. selected cost data for the year are shown below:

|                                    |         |
|------------------------------------|---------|
| Work-in-Process Inventory, Jan. 1  | \$5,920 |
| Direct Materials Used              | 101,000 |
| Work-in-Process Inventory, Dec. 31 | 2,860   |
| Cost of Goods Manufactured         | 193,100 |

Assuming manufacturing overhead costs of \$27,800, what is the amount of direct labor incurred by D&I Supplies, Inc. during the year?

- A) \$64,300
- B) \$190,040
- C) \$61,240
- D) \$128,800

Answer: C

Explanation: C) Total Manufacturing Cost = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = \$2,860 + \$193,100 - \$5,920 = \$190,040

Direct labor costs = Total Manufacturing Cost - Manufacturing overhead costs - Direct Materials Used = \$190,040 - \$27,800 - \$101,000 = \$61,240

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

16) XO, Inc. reports the following cost information for March:

|                                     |          |
|-------------------------------------|----------|
| Cost of Goods Manufactured          | \$71,000 |
| Manufacturing Overhead              | 18,600   |
| Finished Goods Inventory, March 1   | 4,000    |
| Finished Goods Inventory, March 31  | 3,000    |
| Work-in-Process Inventory, March 1  | 9,660    |
| Work-in-Process Inventory, March 31 | 1,290    |
| Direct Materials Used               | 25,530   |

What is the amount of direct labor incurred by XO in March?

A) \$62,630

B) \$6,930

C) \$71,000

D) \$18,500

Answer: D

Explanation: D)

|                                     |                 |
|-------------------------------------|-----------------|
| Cost of Goods Manufactured          | \$71,000        |
| Direct Materials Used               | (25,530)        |
| Manufacturing Overhead              | (18,600)        |
| Work-in-Process Inventory, March 1  | (9,660)         |
| Work-in-Process Inventory, March 31 | <u>1,290</u>    |
| Direct Labor                        | <u>\$18,500</u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

17) Houston Corporation reports the following cost information for March:

|                                     |          |
|-------------------------------------|----------|
| Cost of Goods Manufactured          | \$75,000 |
| Manufacturing Overhead              | 18,700   |
| Finished Goods Inventory, March 1   | 4,000    |
| Finished Goods Inventory, March 31  | 4,000    |
| Work-in-Process Inventory, March 1  | 9,790    |
| Work-in-Process Inventory, March 31 | 1,280    |
| Direct Labor                        | 36,800   |

What is the amount of direct materials used by the company in March?

A) \$10,990

B) \$8,510

C) \$18,100

D) \$19,500

Answer: A

Explanation: A)

|                                     |                 |
|-------------------------------------|-----------------|
| Cost of Goods Manufactured          | \$75,000        |
| Direct Labor                        | (36,800)        |
| Manufacturing Overhead              | (18,700)        |
| Work-in-Process Inventory, March 1  | (9,790)         |
| Work-in-Process Inventory, March 31 | <u>1,280</u>    |
| Direct Materials Used               | <u>\$10,990</u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

18) A.S. Design Corporation reports the following cost information for March:

|                                     |          |
|-------------------------------------|----------|
| Cost of Goods Manufactured          | \$75,000 |
| Finished Goods Inventory, March 1   | 4,000    |
| Finished Goods Inventory, March 31  | 2,650    |
| Work-in-Process Inventory, March 1  | 9,670    |
| Work-in-Process Inventory, March 31 | 1,000    |
| Direct Labor                        | 36,000   |
| Direct Materials Used               | 16,900   |

What is the amount of manufacturing overhead incurred by the company in March?

A) \$30,330

B) \$138,570

C) \$13,430

D) \$12,430

Answer: C

Explanation: C)

|                                     |                 |
|-------------------------------------|-----------------|
| Cost of Goods Manufactured          | \$75,000        |
| Direct Labor                        | (36,000)        |
| Direct Materials Used               | (16,900)        |
| Work-in-Process Inventory, March 1  | (9,670)         |
| Work-in-Process Inventory, March 31 | <u>1,000</u>    |
| Manufacturing Overhead              | <u>\$13,430</u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

19) A corporation used \$34,000 of direct materials and incurred \$74,000 in direct labor cost, and \$112,500 in manufacturing overhead costs during the period. What is the cost of goods manufactured if the beginning and ending Work-in-Process Inventories were \$27,500 and \$20,500, respectively?

A) \$248,000

B) \$227,500

C) \$213,500

D) \$220,500

Answer: B

Explanation: B) Cost of goods manufactured = Beginning Work-in-Process Inventory + Direct Materials + Direct Labor Cost + Manufacturing Overhead Costs - Ending Work-in-Process Inventory = \$27,500 + \$34,000 + \$74,000 + \$112,500 - \$20,500 = \$227,500

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured



20) Given the following information, determine the cost of goods manufactured.

|                                    |          |
|------------------------------------|----------|
| Direct Labor Incurred              | \$62,000 |
| Manufacturing Overhead Incurred    | 177,000  |
| Direct Materials Used              | 151,000  |
| Finished Goods Inventory, Jan. 1   | 197,000  |
| Finished Goods Inventory, Dec. 31  | 99,000   |
| Work-in-Process Inventory, Jan. 1  | 221,000  |
| Work-in-Process Inventory, Dec. 31 | 108,000  |

A) \$390,000

B) \$503,000

C) \$282,000

D) \$188,000

Answer: B

Explanation: B)

|                                    |                  |
|------------------------------------|------------------|
| Work-in-Process Inventory, Jan. 1  | \$221,000        |
| Direct Materials Used              | 151,000          |
| Direct Labor Incurred              | 62,000           |
| Manufacturing Overhead Incurred    | 177,000          |
| Work-in-Process Inventory, Dec. 31 | <u>(108,000)</u> |
| Cost of Goods Manufactured         | <u>\$503,000</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

21) The following information has been provided by Squash Corporation:

|                                        |         |
|----------------------------------------|---------|
| Direct Labor                           | \$6,000 |
| Direct Materials Used                  | 3,000   |
| Raw Materials Purchased                | 9,000   |
| Cost of Goods Manufactured             | 13,000  |
| Ending Work-in-Process Inventory       | 1,400   |
| Corporate Headquarters' Property taxes | 900     |
| Manufacturing Overhead Incurred        | 400     |

The beginning balance of Work-in-Process Inventory account was \_\_\_\_\_.

A) \$4,500

B) \$5,000

C) \$21,000

D) \$9,400

Answer: B

Explanation: B)

|                                     |                |
|-------------------------------------|----------------|
| Cost of Goods Manufactured          | \$13,000       |
| Direct Labor                        | (6,000)        |
| Direct Materials Used               | (3,000)        |
| Manufacturing Overhead              | (400)          |
| Ending Work-in-Process Inventory    | <u>1,400</u>   |
| Beginning Work-in-Process Inventory | <u>\$5,000</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

22) Barricades Corporation provided the following information for the year:

|                                               |          |
|-----------------------------------------------|----------|
| Beginning Balance — Work-in-Process Inventory | \$27,000 |
| Ending Balance — Work-in-Process Inventory    | 56,000   |
| Beginning Balance — Raw Materials Inventory   | 83,000   |
| Ending Balance — Raw Materials Inventory      | 60,000   |
| Purchases — Raw Materials                     | 360,000  |
| Direct Labor                                  | 471,000  |
| Indirect Labor                                | 18,000   |
| Depreciation on Factory Plant and Equipment   | 25,000   |
| Plant Utilities and Insurance                 | 271,000  |

What was the amount of direct materials used in production during the year?

A) \$66,000

B) \$360,000

C) \$383,000

D) \$831,000

Answer: C

Explanation: C)

|                                             |          |
|---------------------------------------------|----------|
| Beginning Balance — Raw Materials Inventory | \$83,000 |
|---------------------------------------------|----------|

|                           |         |
|---------------------------|---------|
| Purchases — Raw Materials | 360,000 |
|---------------------------|---------|

|                                          |                 |
|------------------------------------------|-----------------|
| Ending Balance — Raw Materials Inventory | <u>(60,000)</u> |
|------------------------------------------|-----------------|

|                       |           |
|-----------------------|-----------|
| Direct Materials Used | \$383,000 |
|-----------------------|-----------|

Diff: 1

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

23) KRD Supplies Corporation provided the following information for the year:

|                                               |          |
|-----------------------------------------------|----------|
| Beginning Balance — Work-in-Process Inventory | \$24,000 |
| Ending Balance — Work-in-Process Inventory    | 58,000   |
| Beginning Balance — Raw Materials Inventory   | 85,000   |
| Ending Balance — Raw Materials Inventory      | 61,000   |
| Purchases — Raw Materials                     | 359,000  |
| Direct Labor                                  | 470,000  |
| Indirect Labor                                | 21,000   |
| Depreciation on Factory Plant and Equipment   | 24,000   |
| Plant Utilities and Insurance                 | 268,000  |

What was the amount of the manufacturing overhead costs?

A) \$313,000

B) \$45,000

C) \$292,000

D) \$491,000

Answer: A

Explanation: A)

|                               |         |
|-------------------------------|---------|
| Plant Utilities and Insurance | 268,000 |
|-------------------------------|---------|

|                                             |        |
|---------------------------------------------|--------|
| Depreciation on Factory Plant and Equipment | 24,000 |
|---------------------------------------------|--------|

|                |               |
|----------------|---------------|
| Indirect Labor | <u>21,000</u> |
|----------------|---------------|

|                                    |           |
|------------------------------------|-----------|
| Total Manufacturing Overhead Costs | \$313,000 |
|------------------------------------|-----------|

Diff: 1

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

24) Douban Corporation provided the following information for the year:

|                                             |          |
|---------------------------------------------|----------|
| Beginning Balance—Work-in-Process Inventory | \$27,000 |
| Ending Balance—Work-in-Process Inventory    | 57,000   |
| Beginning Balance—Raw Materials Inventory   | 87,000   |
| Ending Balance—Raw Materials Inventory      | 61,000   |
| Purchases—Raw Materials                     | 358,000  |
| Direct Labor                                | 469,000  |
| Indirect Labor                              | 21,000   |
| Depreciation on Factory Plant and Equipment | 22,000   |
| Plant Utilities and Insurance               | 271,000  |

What was the total manufacturing costs incurred during the year?

- A) \$698,000
- B) \$314,000
- C) \$853,000
- D) \$1,167,000

Answer: D

Explanation: D)

|                                           |                  |
|-------------------------------------------|------------------|
| Beginning Balance—Raw Materials Inventory | \$87,000         |
| Purchases—Raw Materials                   | 358,000          |
| Ending Balance—Raw Materials Inventory    | <u>(61,000)</u>  |
| Direct Materials Used                     | <u>\$384,000</u> |

|                                             |                  |
|---------------------------------------------|------------------|
| Plant Utilities and Insurance               | \$271,000        |
| Depreciation on Factory Plant and Equipment | 22,000           |
| Indirect Labor                              | <u>21,000</u>    |
| Total Manufacturing Overhead Costs          | <u>\$314,000</u> |

|                                               |                    |
|-----------------------------------------------|--------------------|
| Direct Materials Used                         | \$384,000          |
| Direct Labor                                  | 469,000            |
| Manufacturing Overhead                        | <u>\$314,000</u>   |
| Total Manufacturing Cost Incurred During Year | <u>\$1,167,000</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

25) Malibu Corporation provided the following information for the year:

|                                             |          |
|---------------------------------------------|----------|
| Beginning Balance—Work-in-Process Inventory | \$26,000 |
| Ending Balance—Work-in-Process Inventory    | 55,000   |
| Beginning Balance—Raw Materials Inventory   | 81,000   |
| Ending Balance—Raw Materials Inventory      | 59,000   |
| Purchases—Raw Materials                     | 360,000  |
| Direct Labor                                | 471,000  |
| Indirect Labor                              | 19,000   |
| Depreciation on Factory Plant and Equipment | 24,000   |
| Plant Utilities and Insurance               | 268,000  |

What was the amount of the cost of goods manufactured for the year?

A) \$1,363,000

B) \$1,164,000

C) \$1,135,000

D) \$1,193,000

Answer: C

Explanation: C)

|                                           |                  |
|-------------------------------------------|------------------|
| Beginning Balance—Raw Materials Inventory | \$81,000         |
| Purchases—Raw Materials                   | 360,000          |
| Ending Balance—Raw Materials Inventory    | <u>(59,000)</u>  |
| Direct Materials Used                     | <u>\$382,000</u> |

|                                             |                  |
|---------------------------------------------|------------------|
| Plant Utilities and Insurance               | \$268,000        |
| Depreciation on Factory Plant and Equipment | 24,000           |
| Indirect Labor                              | <u>19,000</u>    |
| Total Manufacturing Overhead Costs          | <u>\$311,000</u> |

|                                               |                    |
|-----------------------------------------------|--------------------|
| Direct Materials Used                         | \$382,000          |
| Direct Labor                                  | 471,000            |
| Manufacturing Overhead                        | <u>\$311,000</u>   |
| Total Manufacturing Cost Incurred During Year | <u>\$1,164,000</u> |

|                                               |                    |
|-----------------------------------------------|--------------------|
| Beginning Balance—Work-in-Process Inventory   | \$26,000           |
| Total Manufacturing Cost Incurred During Year | 1,164,000          |
| Ending Balance—Work-in-Process Inventory      | <u>(55,000)</u>    |
| Cost of Goods Manufactured                    | <u>\$1,135,000</u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

26) Amoeba Manufacturing, Inc. provided the following information for the year:

|                                           |          |
|-------------------------------------------|----------|
| Purchases—Raw Materials                   | \$91,000 |
| Plant Utilities and Insurance             | 66,000   |
| Indirect Materials                        | 11,240   |
| Indirect Labor                            | 4,340    |
| Direct Materials Used in Production       | 99,000   |
| Direct Labor                              | 119,500  |
| Depreciation on Factory Plant & Equipment | 5,000    |

The inventory account balances as of January 1 are given below.

|                            |          |
|----------------------------|----------|
| Raw Materials Inventory    | \$44,000 |
| Work-in-Progress Inventory | 11,000   |
| Finished Goods Inventory   | 50,000   |

What is the ending balance in the Raw Materials Inventory account?

A) \$135,000

B) \$6,000

C) \$110,240

D) \$24,760

Answer: D

Explanation: D) Beginning Raw Materials Inventory + Purchases Raw Materials - Direct Materials Used in Production - Indirect Materials = Ending Raw Materials Inventory

$\$44,000 + \$91,000 - \$99,000 - \$11,240 = \$24,760$

Diff: 1

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

27) Bentley Manufacturing, Inc. provided the following information for the year:

|                                             |          |
|---------------------------------------------|----------|
| Purchases—Raw Materials                     | \$90,000 |
| Plant Utilities and Insurance               | 67,500   |
| Indirect Materials Used                     | 11,040   |
| Indirect Labor                              | 4,420    |
| Direct Materials Used in Production         | 99,000   |
| Direct Labor                                | 119,500  |
| Depreciation on Factory Plant and Equipment | 5,000    |
| Cost of Goods Manufactured                  | 291,500  |

The inventory account balances as of January 1 are given below.

|                            |          |
|----------------------------|----------|
| Raw Materials Inventory    | \$46,000 |
| Work-in-Progress Inventory | 1,000    |
| Finished Goods Inventory   | 50,000   |

What is the ending balance in the Work-in-Process Inventory account?

A) \$15,960

B) \$1,000

C) \$50,000

D) \$45,000

Answer: A

Explanation: A)

|                                             |                 |
|---------------------------------------------|-----------------|
| Indirect Materials                          | \$11,040        |
| Indirect Labor                              | 4,420           |
| Depreciation on Factory Plant and Equipment | 5,000           |
| Plant Utilities & Insurance                 | <u>67,500</u>   |
| Total Manufacturing Overhead                | <u>\$87,960</u> |

|                                     |                  |
|-------------------------------------|------------------|
| Beginning—Work-in-Process Inventory | \$1,000          |
| Direct Materials Used in Production | 99,000           |
| Direct Labor                        | 119,500          |
| Manufacturing Overhead              | 87,960           |
| Cost of Goods Manufactured          | <u>(291,500)</u> |
| Ending—Work-in-Process Inventory    | <u>\$15,960</u>  |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured



28) Red Tail Manufacturing, Inc. provided the following information for the year:

|                                             |          |
|---------------------------------------------|----------|
| Purchases—Raw Materials                     | \$91,000 |
| Plant Utilities and Insurance               | 66,000   |
| Indirect Materials Used                     | 11,240   |
| Indirect Labor                              | 4,830    |
| Direct Materials Used in Production         | 98,000   |
| Direct Labor                                | 118,500  |
| Depreciation on Factory Plant and Equipment | 8,000    |
| Cost of Goods Manufactured                  | 292,000  |
| Cost of Goods Sold                          | 290,000  |

The inventory account balances as of January 1 are given below.

|                            |          |
|----------------------------|----------|
| Raw Materials Inventory    | \$45,000 |
| Work-in-Progress Inventory | 11,000   |
| Finished Goods Inventory   | 304,570  |

What is the ending balance in the Finished Goods Inventory?

A) \$304,570

B) \$302,570

C) \$306,570

D) \$596,570

Answer: C

Explanation: C)

|                                            |                  |
|--------------------------------------------|------------------|
| Beginning Balance—Finished Goods Inventory | \$304,570        |
| Cost of Goods Manufactured                 | 292,000          |
| Cost of Goods Sold                         | <u>(290,000)</u> |
| Ending Balance—Finished Goods Inventory    | <u>\$306,570</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

29) Regarding the flow of costs through the inventory accounts, which of the following statements is incorrect?

- A) The final amount at each stage is added at the beginning of the next stage.
- B) The costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.
- C) Purchases and freight in are debited to the Work-in-Process Inventory account.
- D) The format for computing the amount used, manufactured, or sold is the same for all three inventory accounts.

Answer: C

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

30) South State, Inc. used \$153,000 of direct materials and incurred \$63,000 of direct labor costs during the year. Indirect labor amounted to \$270,000, while indirect materials used totaled \$53,000. Other operating costs pertaining to the factory included utilities of \$135,500; maintenance of \$70,260; repairs of \$53,400; depreciation of \$133,000; and property taxes of \$74,640. There was no beginning or ending finished goods inventory, but Work-in-Process inventory began the year with a \$5,000 balance and ended the year with a \$7,400 balance.

How much is the cost of goods manufactured?

- A) \$12,400
- B) \$1,003,400
- C) \$1,010,800
- D) \$1,005,800

Answer: B

Explanation: B)

|                                                                                             |                           |
|---------------------------------------------------------------------------------------------|---------------------------|
| Beginning Work-in-Process Inventory                                                         | \$5,000                   |
| Direct Materials Used                                                                       | 153,000                   |
| Direct Labor                                                                                | 63,000                    |
| Manufacturing Overhead<br>(270,000 + 53,000 + 135,500 + 70,260 + 53,400 + 133,000 + 74,640) | 789,800                   |
| Total Manufacturing Costs Incurred during the Year                                          | <u>1,005,800</u>          |
| Total Manufacturing Costs to Account For                                                    | 1,010,800                 |
| Ending Work-in-Process Inventory                                                            | <u>(7,400)</u>            |
| Cost of Goods Manufactured                                                                  | <u><u>\$1,003,400</u></u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

31) Arturo Manufacturing, Inc. provided the following information for the year:

|                                             |           |
|---------------------------------------------|-----------|
| Beginning Balance—Work-in-Process Inventory | \$150,000 |
| Ending Balance—Work-in-Process Inventory    | 62,500    |
| Beginning Balance—Raw Materials Inventory   | 269,000   |
| Ending Balance—Raw Materials Inventory      | 53,700    |
| Purchases—Raw Materials                     | 133,000   |
| Direct Labor                                | 74,380    |
| Indirect Materials                          | 52,350    |
| Indirect Labor                              | 132,500   |
| Depreciation on Factory Plant and Equipment | 72,160    |
| Plant Utilities and Insurance               | 70,980    |

How much is the cost of goods manufactured?

- A) \$838,170
- B) \$750,670
- C) \$900,670
- D) \$766,010

Answer: A

Explanation: A)

|                                                    |                 |                  |
|----------------------------------------------------|-----------------|------------------|
| Beginning Balance—Work-in-Process Inventory        |                 | \$150,000        |
| Direct Materials Used:                             |                 |                  |
| Beginning Balance—Raw Materials Inventory          | 269,000         |                  |
| Purchases—Raw Materials                            | <u>133,000</u>  |                  |
| Raw Materials Available for Use                    | 402,000         |                  |
| Ending Balance—Raw Materials Inventory             | <u>(53,700)</u> |                  |
| Direct Materials Used                              |                 | 348,300          |
| Direct Labor                                       |                 | 74,380           |
| Manufacturing Overhead                             |                 |                  |
| (52,350 + 132,500 + 72,160 + 70,980)               | <u>327,990</u>  |                  |
| Total Manufacturing Costs Incurred during the Year |                 | <u>\$750,670</u> |
| Total Manufacturing Costs to Account For           |                 | \$900,670        |
| Ending Work-in-Process Inventory                   |                 | <u>(62,500)</u>  |
| Cost of Goods Manufactured                         |                 | <u>\$838,170</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

32) Ferrell, Inc. used \$213,000 of direct materials and incurred \$111,000 of direct labor costs during the year. Indirect labor amounted to \$8,100, while indirect materials used totaled \$4,800. Other operating costs pertaining to the factory included utilities of \$9,300; maintenance of \$13,500; repairs of \$5,400; depreciation of \$23,700; and property taxes of \$7,800. There was no beginning or ending finished goods inventory. The Work-in-Process Inventory account reflected a balance of \$16,500 at the beginning of the period and \$22,500 at the end of the period.

Required: Prepare a schedule of cost of goods manufactured for Ferrell, Inc. using the format below.

Cost of Goods Manufactured

|                                                    |  |  |  |
|----------------------------------------------------|--|--|--|
| Beginning Work-in-Process Inventory                |  |  |  |
| Direct Materials Used                              |  |  |  |
| Direct Labor                                       |  |  |  |
| Manufacturing Overhead:                            |  |  |  |
| Indirect Labor Used                                |  |  |  |
| Indirect Materials                                 |  |  |  |
| Utilities                                          |  |  |  |
| Maintenance                                        |  |  |  |
| Repairs                                            |  |  |  |
| Depreciation                                       |  |  |  |
| Property Taxes                                     |  |  |  |
| Total Manufacturing Overhead                       |  |  |  |
| Total Manufacturing Costs Incurred during the Year |  |  |  |
| Total Manufacturing Costs to Account For           |  |  |  |
| Ending Work-in-Process Inventory                   |  |  |  |
| Cost of Goods Manufactured                         |  |  |  |

Answer:

**Schedule of Cost of Goods Manufactured**

|                                                    |              |               |                         |
|----------------------------------------------------|--------------|---------------|-------------------------|
| Beginning Work-in-Process Inventory                |              |               | \$16,500                |
| Direct Materials Used                              |              | \$213,000     |                         |
| Direct Labor                                       |              | 111,000       |                         |
| Manufacturing Overhead:                            |              |               |                         |
| Indirect Labor                                     | \$8,100      |               |                         |
| Indirect Materials Used                            | 4,800        |               |                         |
| Utilities                                          | 9,300        |               |                         |
| Maintenance                                        | 13,500       |               |                         |
| Repairs                                            | 5,400        |               |                         |
| Depreciation                                       | 23,700       |               |                         |
| Property Taxes                                     | <u>7,800</u> |               |                         |
| Total Manufacturing Overhead                       |              | <u>72,600</u> |                         |
| Total Manufacturing Costs Incurred during the Year |              |               | <u>396,600</u>          |
| Total Manufacturing Costs to Account For           |              |               | 413,100                 |
| Ending Work-in-Process Inventory                   |              |               | <u>(22,500)</u>         |
| Cost of Goods Manufactured                         |              |               | <u><u>\$390,600</u></u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

33) Dreams Manufacturing, Inc. provided the following information for the year:

|                                             |           |
|---------------------------------------------|-----------|
| Purchases—Raw Materials                     | \$270,000 |
| Plant Utilities and Insurance               | 202,500   |
| Indirect Materials                          | 35,250    |
| Indirect Labor                              | 14,250    |
| Ending Balance—Work-in-Process Inventory    | 42,000    |
| Ending Balance—Raw Materials Inventory      | 45,000    |
| Direct Labor                                | 352,500   |
| Depreciation on Factory Plant and Equipment | 18,000    |
| Beginning Balance—Work-in-Process Inventory | 18,000    |
| Beginning Balance—Raw Materials Inventory   | 63,000    |

Required: Prepare a statement of the cost of goods manufactured using the following format:

**Schedule of Cost of Goods Manufactured**

|                                                    |  |  |  |
|----------------------------------------------------|--|--|--|
|                                                    |  |  |  |
| Beginning Work-in-Process Inventory                |  |  |  |
| Direct Materials Used:                             |  |  |  |
| Beginning Raw Materials Inventory                  |  |  |  |
| Purchases of Raw Materials                         |  |  |  |
| Raw Materials Available for Use                    |  |  |  |
| Ending Raw Materials Inventory                     |  |  |  |
| Direct Materials Used                              |  |  |  |
| Direct Labor                                       |  |  |  |
| Manufacturing Overhead:                            |  |  |  |
| Indirect Materials                                 |  |  |  |
| Indirect Labor                                     |  |  |  |
| Depreciation—Plant and Equip.                      |  |  |  |
| Plant Utilities and Insurance                      |  |  |  |
| Total Manufacturing Overhead                       |  |  |  |
| Total Manufacturing Costs Incurred During the Year |  |  |  |
| Total Manufacturing Costs to Account For           |  |  |  |
| Ending Work-in-Process Inventory                   |  |  |  |
| Cost of Goods Manufactured                         |  |  |  |

Answer:

**Schedule of Cost of Goods Manufactured**

|                                                    |                 |                |                         |
|----------------------------------------------------|-----------------|----------------|-------------------------|
| Beginning Work-in-Process Inventory                |                 |                | \$18,000                |
| Direct Materials Used                              |                 |                |                         |
| Beginning Raw Materials Inventory                  | \$63,000        |                |                         |
| Purchases of Raw Materials                         | <u>270,000</u>  |                |                         |
| Raw Materials Available for Use                    | 333,000         |                |                         |
| Ending Raw Materials Inventory                     | <u>(45,000)</u> |                |                         |
| Direct Materials Used                              |                 | \$288,000      |                         |
| Direct Labor                                       |                 | 352,500        |                         |
| Manufacturing Overhead                             |                 |                |                         |
| Indirect Materials                                 | 35,250          |                |                         |
| Indirect Labor                                     | 14,250          |                |                         |
| Depreciation on Factory Plant and Equipment        | 18,000          |                |                         |
| Plant Utilities and Insurance                      | <u>202,500</u>  |                |                         |
| Total Manufacturing Overhead                       |                 | <u>270,000</u> |                         |
| Total Manufacturing Costs Incurred during the Year |                 |                | <u>910,500</u>          |
| Total Manufacturing Costs to Account For           |                 |                | 928,500                 |
| Ending Work-in-Process Inventory                   |                 |                | <u>(42,000)</u>         |
| Cost of Goods Manufactured                         |                 |                | <u><u>\$886,500</u></u> |

Diff: 3

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculating Cost of Goods Manufactured

34) Describe the flow of product costs for a manufacturer.

Answer: The flow of product costs for a manufacturer begins with the purchase of raw materials. The manufacturer then uses direct labor and manufacturing overhead to convert these materials into Work-in-Process Inventory. When the manufacturing process is complete, the costs are transferred to Finished Goods Inventory. The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.

Diff: 2

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost of Goods Manufactured

35) Manufacturing costs flow from Work-in-Process Inventory to Cost of Goods Sold to Finished Goods Inventory.

Answer: FALSE

Explanation: Manufacturing costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Flow of Costs Through a Process Costing System

36) The following format represents the flow of costs for all three manufacturing inventory accounts:

Beginning balance + Additions - Ending balance = Amount used, manufactured, or sold

Answer: TRUE

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Flow of Costs Through a Process Costing System

37) The following information has been provided by New Age, Inc.:

|                                        |          |
|----------------------------------------|----------|
| Direct Labor                           | \$25,100 |
| Direct Materials Used                  | 11,000   |
| Raw Materials Purchased                | 16,710   |
| Cost of Goods Manufactured             | 49,000   |
| Ending Work-in-Process Inventory       | 11,200   |
| Corporate Headquarters' Property Taxes | 1,500    |
| Manufacturing Overhead                 | 19,350   |

Calculate the beginning balance of the Work-in-Process Inventory account.

A) \$93,250

B) \$60,200

C) \$4,750

D) \$44,250

Answer: C

Explanation: C)

|                                     |                |
|-------------------------------------|----------------|
| Cost of Goods Manufactured          | \$49,000       |
| Direct Materials Used               | (11,000)       |
| Direct Labor                        | (25,100)       |
| Manufacturing Overhead              | (19,350)       |
| Ending Work-in-Process Inventory    | <u>11,200</u>  |
| Beginning Work-in-Process Inventory | <u>\$4,750</u> |

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Flow of Costs Through a Process Costing System



38) A manufacturer produced 7,500 total units. The cost of goods manufactured is \$88,000 and the cost of goods sold is \$71,000. The unit product cost is \$9.47.

Answer: FALSE

Explanation:  $\text{Cost of goods manufactured} / \text{Total units produced} = \text{Unit product cost}$

$\$88,000 / 7,500 = \$11.73$

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Unit Product Cost

39) Unit product costs can be used to measure operating income and determine the cost of Finished Goods Inventory.

Answer: TRUE

Diff: 1

LO: 16-4

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Unit Product Cost

40) Reed Productions has provided the following information for the year:

|                                     |           |
|-------------------------------------|-----------|
| Direct Labor                        | \$150,000 |
| Beginning Work-in-Process Inventory | 63,000    |
| Direct Materials Used               | 269,000   |
| Ending Work-in-Process Inventory    | 52,900    |
| Manufacturing Overhead              | 135,000   |

During the year, Reed produced 71,220 units of product. Calculate the unit product cost. (Round your answer to the nearest cent.)

A) \$7.92

B) \$6.77

C) \$7.78

D) \$8.66

Answer: A

Explanation: A)

|                                     |                |                  |
|-------------------------------------|----------------|------------------|
| Beginning Work-in-Process Inventory |                | \$63,000         |
| Direct Materials Used:              | \$269,000      |                  |
| Direct Labor                        | 150,000        |                  |
| Manufacturing Overhead              | <u>135,000</u> |                  |
| Total Mfg. Costs Incurred           |                | <u>554,000</u>   |
| Total Mfg. Costs to Account For     |                | 617,000          |
| Ending Work-in-Process Inventory    |                | <u>(52,900)</u>  |
| Cost of Goods Manufactured          |                | <u>\$564,100</u> |

Unit product cost: Cost of Goods Manufactured / Units produced

Unit product cost \$7.92 per unit

Diff: 2

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Unit Product Cost

41) Evanston Manufacturing, Inc. reported the following information for the year:

|                            |           |
|----------------------------|-----------|
| Number of Units Produced   | 152,000   |
| Number of Units Sold       | 62,000    |
| Cost of Goods Manufactured | \$268,000 |
| Cost of Goods Sold         | 52,900    |
| Sales Revenue              | 130,000   |
| Gross Profit               | 72,940    |
| Operating Expense          | 727,000   |

What was the unit product cost? (Round your answer to the nearest cent.)

- A) \$4.32
- B) \$0.86
- C) \$0.85
- D) \$1.76

Answer: D

Explanation: D) Unit product cost = Cost of goods manufactured / units = \$268,000 / 152,000 = \$1.76

Diff: 1

LO: 16-4

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Unit Product Cost

### Learning Objective 16-5

1) Managerial accounting is used in manufacturing and merchandising companies, but not in service companies.

Answer: FALSE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

2) Managerial accounting can be used to calculate costs for service and merchandising companies.

Answer: TRUE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

3) Service companies do not have product costs, so they often consider all operating expenses as part of their cost of service.

Answer: TRUE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculate Cost Per Service

4) A merchandiser does not need to calculate cost per unit because it resells goods that are already manufactured.

Answer: FALSE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculate Cost Per Service

5) Unit cost per service is calculated by dividing total costs by the total number of services provided.

Answer: TRUE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculate Cost Per Service

6) Nurix, Inc. is a business consulting firm. During the month of February, Nurix earned \$56,400 of revenues by providing services to 48 clients. Operating expenses for February were \$10,500 and non-operating expenses were \$6,000.

What is the unit cost per service? (Round your answer to the nearest cent.)

A) \$125.00

B) \$218.75

C) \$1,175.00

D) \$10,625.00

Answer: B

Explanation: B) Cost per service = Operating expenses / Clients = \$10,500 / 48 = \$218.75

Diff: 1

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculate Cost Per Service

7) Samson, Inc. reported the following information for the year:

|                                          |          |
|------------------------------------------|----------|
| Service Revenue                          | \$60,000 |
| Operating Expenses                       | 21,000   |
| Net Income                               | 39,000   |
| Number of Services Provided for the Year | 10,500   |

How much was the unit cost per service? (Round your answer to the nearest cent.)

- A) \$5.71
- B) \$3.71
- C) \$2.00
- D) \$7.71

Answer: C

Explanation: C) Cost per service = Operating Expenses / Services = \$21,000 / 10,500 = \$2.00

Diff: 1

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculate Cost Per Service

8) Fuchsia, Inc. provides automobile repair services in the local community. The company provides the following information for the month of March:

|                                |         |
|--------------------------------|---------|
| Building Rent Expense          | \$5,200 |
| Depreciation Expense—Equipment | 1,600   |
| Supplies Expense               | 8,000   |
| Utilities Expense              | 2,350   |

Fuchsia provided services to 1,600 clients in the month of March and generated \$23,500 as revenue.

How much is the cost per service? (Round your answer to the nearest cent.)

- A) \$10.72
- B) \$3.25
- C) \$10.00
- D) \$5.72

Answer: A

Explanation: A) Cost per service = Total costs / Services = \$17,150 / 1,600 = \$10.72

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculate Cost Per Service

9) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned \$550,000 in revenues and incurred the following operating costs from 300 customers:

|                                |         |
|--------------------------------|---------|
| Manager's Salary               | \$5,500 |
| Gym Rent                       | 1,800   |
| Depreciation Expense—Equipment | 7,000   |
| Office Supplies Expense        | 2,300   |
| Utilities Expense              | 1,600   |
| Trainer's Salary               | 22,500  |

How much is the unit cost per customer? (Round your answer to the nearest cent.)

- A) \$93.33
- B) \$19.00
- C) \$1,833.33
- D) \$135.67

Answer: D

Explanation: D)

|                                |               |
|--------------------------------|---------------|
| Manager's Salary               | \$5,500       |
| Gym Rent                       | 1,800         |
| Depreciation Expense—Equipment | 7,000         |
| Office Supplies Expense        | 2,300         |
| Utilities Expense              | 1,600         |
| Trainer's Salary               | <u>22,500</u> |
| Total Operating Expense        | \$40,700      |

Unit cost per service = \$40,700 / 300 customers = \$135.67

Diff: 1

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculate Cost Per Service

10) Poodle Grooming Salon provides dog grooming services. In March, the business groomed 245 dogs, earned \$10,300 in revenues, and incurred the following operating costs:

|                                  |       |
|----------------------------------|-------|
| Grooming Supplies Expense        | \$485 |
| Wages Expense                    | 3,260 |
| Utilities Expense                | 285   |
| Rent Expense                     | 1,200 |
| Depreciation Expense - Equipment | 500   |

Compute the cost of one grooming. (Round to two decimal places.)

Answer:

$$\begin{aligned}\text{Cost of one grooming} &= \text{Total operating costs} / \text{Total number of dogs groomed} \\ &= (\$485 + \$3,260 + \$285 + \$1,200 + \$500) / 245 \text{ dogs groomed} \\ &= \$5730 / 245 \\ &= \$23.39 \text{ per dog groomed}\end{aligned}$$

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculate Cost Per Service

11) How does a service company calculate unit cost per service? Why do managers need to know the unit cost per service?

Answer: Unit cost per service is calculated by dividing total operating costs by total number of services provided. The unit cost per service helps managers set the price of each service provided.

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculate Cost Per Service

12) Knowing the unit cost per item helps managers set appropriate selling prices.

Answer: TRUE

Diff: 1

LO: 16-5

AICPA Functional: Measurement

PE Question Type: Concept

H2: Calculating Cost Per Item

13) If a merchandising company determines that the unit cost to purchase a product is less than the unit cost to manufacture the product, the company should make a decision to begin manufacturing the product

Answer: FALSE

Explanation: If a merchandising company determines that the unit cost to purchase an item is more than the unit cost to manufacture the item, the company should make a decision to begin manufacturing the product.

Diff: 2

LO: 16-5

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Critical thinking

H2: Calculating Cost Per Item

14) Minnetonka, Inc. is a merchandiser of stone ornaments. The company sold 15,100 units during the year. The company has provided the following information:

|                                     |           |
|-------------------------------------|-----------|
| Sales Revenue                       | \$558,000 |
| Purchases (excluding Freight In)    | 280,000   |
| Selling and Administrative Expenses | 280,000   |
| Freight In                          | 66,000    |
| Beginning Merchandise Inventory     | 13,000    |
| Ending Merchandise Inventory        | 52,000    |

What is the unit cost per item sold? (Round your answer to the nearest cent.)

A) \$19.21

B) \$15.77

C) \$22.85

D) \$19.40

Answer: A

Explanation: A)

|                                  |                  |
|----------------------------------|------------------|
| Purchases (excluding Freight In) | 280,000          |
| Freight In                       | 13,000           |
| Beginning Merchandise Inventory  | 52,000           |
| Ending Merchandise Inventory     | <u>(54,900)</u>  |
| Cost of Goods Sold               | <u>\$290,100</u> |

Cost per unit sold = \$290,100 / 15,100 units = \$19.21

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Cost Per Item



15) Five Seasons is a merchandiser of packed foods. The company provides the following information for the year:

|                      |           |
|----------------------|-----------|
| Sales Revenue        | \$145,000 |
| Cost of Goods Sold   | 64,000    |
| Operating Expenses   | 67,000    |
| Net Income           | 14,000    |
| Number of Units Sold | 29,000    |

How much was the unit cost per item of product sold? (Round your answer to the nearest cent.)

- A) \$4.52
- B) \$5.00
- C) \$2.21
- D) \$100.48

Answer: C

Explanation: C) Cost per unit of product sold = Cost of Goods Sold / Units = \$64,000 / 29,000 = \$2.21

Diff: 1

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Cost Per Item

16) Kentucky, Inc. purchases and sells widgets. The following information summarizes the company's operating activities for the year:

|                                     |         |
|-------------------------------------|---------|
| Selling and Administrative Expenses | \$5,300 |
| Purchases                           | 157,000 |
| Sales Revenue                       | 785,000 |
| Merchandise Inventory, January 1    | 2,350   |
| Merchandise Inventory, December 31  | 38,350  |

If the company sold 7,900 units of widgets during the year, how much is the cost for one widget? (Round your answer to the nearest cent.)

- A) \$19.87
- B) \$15.32
- C) \$20.17
- D) \$5.15

Answer: B

Explanation: B)

|                                    |                  |
|------------------------------------|------------------|
| Merchandise Inventory, January 1   | \$2,350          |
| Purchases                          | 157,000          |
| Merchandise Inventory, December 31 | <u>(38,350)</u>  |
| Total cost of goods sold           | <u>\$121,000</u> |

Unit cost per item = \$121,000 / 7,900 units = \$15.32

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Cost Per Item

17) Crabapples, Inc. purchases and sells boxes of dried fruit. The following information summarizes its operating activities for the year:

|                                      |          |
|--------------------------------------|----------|
| Selling Expenses                     | \$10,000 |
| Merchandise Inventory on December 31 | 32,000   |
| Merchandise Inventory on January 1   | 46,000   |
| Purchases of merchandise             | 82,500   |
| Rent for store                       | 12,700   |
| Sales commissions                    | 7,100    |
| Sales revenue                        | 168,000  |

What is the cost per box of dry fruits if Crabapples sold 4,000 boxes of dry fruit during the year? (Round your answer to the nearest cent.)

- A) \$8.00
- B) \$42.00
- C) \$32.13
- D) \$24.13

Answer: D

Explanation: D)

|                                            |                 |
|--------------------------------------------|-----------------|
| Merchandise Inventory on January 1, 2017   | \$46,000        |
| Purchases of Merchandise                   | 82,500          |
| Merchandise Inventory on December 31, 2017 | <u>(32,000)</u> |
| Cost of Goods Sold                         | <u>\$96,500</u> |

Cost per box = \$96,500 / 4,000 boxes = \$24.13

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Reporting

PE Question Type: Application

H2: Calculating Cost Per Item

18) Mason Cabinet Company sells standard kitchen cabinets. The following information summarizes Mason's operating activities for the year:

|                                     |          |
|-------------------------------------|----------|
| Selling and Administrative Expenses | \$42,750 |
| Purchases                           | 85,700   |
| Sales Revenue                       | 154,500  |
| Merchandise Inventory, January 1    | 12,500   |
| Merchandise Inventory, December 31  | 16,200   |

Mason sold 950 cabinets during the year.

Calculate the operating income for the year.

Compute the unit cost for one cabinet (Round to two decimal places.)

Answer: Operating income for the year

Mason Cabinet Company  
Income Statement  
Year Ended December 31, 20XX

|                                         |                 |                   |
|-----------------------------------------|-----------------|-------------------|
| Sales Revenue                           |                 | \$154,500         |
| Cost of Goods Sold:                     |                 |                   |
| Beginning Merchandise Inventory         | \$12,500        |                   |
| Purchases                               | <u>85,700</u>   |                   |
| Cost of Goods Available for Sale        | 98,200          |                   |
| Ending Merchandise Inventory            | <u>(16,200)</u> |                   |
| Cost of Goods Sold                      |                 | <u>82,000</u>     |
| Gross Profit                            |                 | 72,500            |
| <br>Selling and Administrative Expenses |                 | <br><u>42,750</u> |
| Operating Income                        |                 | <u>\$29,750</u>   |

Unit cost for one cabinet = Cost of goods sold / Total units sold  
 = \$82,000 / 950 cabinets  
 = \$86.32 per cabinet

Diff: 3

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculate Cost Per Item

19) How does a manufacturing company calculate unit product cost? Why do managers need to know the unit product cost?

Answer: Unit product cost is calculated by dividing cost of goods manufactured by total units produced. The unit product cost helps managers decide on the prices to charge for each product to ensure that each product is profitable.

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculate Cost Per Item

20) How does a merchandise company calculate unit cost per item? Why do managers need to know the unit cost per item?

Answer: Unit cost per item is calculated by dividing total cost of goods sold by total number of items sold. The unit cost per item helps managers know which products are most profitable. The unit cost per item also helps managers set appropriate selling prices.

Diff: 2

LO: 16-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Calculate Cost Per Item