

Name: _____ Class: _____ Date: _____

Chapter 2 – Basic Managerial Accounting Concepts

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

- a. True
- b. False

ANSWER: True

2. Expired costs are called assets.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

4. Costs incurred to produce future benefits would generally be categorized as liabilities.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

6. The revenue per unit is called sales price.

- a. True
- b. False

ANSWER: True

7. Sales price must be greater than cost in order for the firm to generate a profit.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

9. A fixed cost decreases in total as output decreases.

- a. True
- b. False

ANSWER: False

Chapter 2 – Basic Managerial Accounting Concepts

10. If a cost is classified as a variable cost in one situation, it may be appropriate to instead classify the same cost as a fixed cost in another situation.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

15. While it is necessary to assign direct costs to cost objects, it is NOT necessary to assign indirect costs.

- a. True
- b. False

ANSWER: False

16. Costs may be directly or indirectly associated with cost objects.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

18. Indirect costs are costs that are easily and accurately traced to a cost object.

Chapter 2 – Basic Managerial Accounting Concepts

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

20. A variable cost is one that decreases in total as output increases and increases in total as output decreases.

- a. True
- b. False

ANSWER: False

21. A fixed cost is a cost that increases in total as output increases and decreases in total as output decreases.

- a. True
- b. False

ANSWER: False

22. Denim used when making jeans would normally be classified as a variable cost.

- a. True
- b. False

ANSWER: True

23. Screws used in the manufacture of cabinets would normally be classified as a variable cost.

- a. True
- b. False

ANSWER: True

24. Services are most appropriately classified as intangible and perishable.

- a. True
- b. False

ANSWER: True

25. Product costs are carried in inventory only until production of the goods is completed.

- a. True
- b. False

ANSWER: False

26. A manufacturing business generally reports three types of inventory on its balance sheet.

- a. True
- b. False

ANSWER: True

Chapter 2 – Basic Managerial Accounting Concepts

27. Indirect materials can be directly traced to the goods or services being produced.

- a. True
- b. False

ANSWER: False

28. All product costs other than direct materials and indirect labour are called manufacturing overhead.

- a. True
- b. False

ANSWER: False

29. Direct materials, direct labour, and manufacturing overhead are the three classifications of manufacturing costs.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

31. The cost of maintenance personnel in a factory building would be classified as direct labour.

- a. True
- b. False

ANSWER: False

32. Prime cost is the sum of direct materials and direct labour.

- a. True
- b. False

ANSWER: True

33. Period costs are those costs associated with the manufacture of goods or the providing of services over a period of time.

- a. True
- b. False

ANSWER: False

34. Any costs associated with storing, selling, and delivering a product are generally classified as period costs.

- a. True
- b. False

ANSWER: True

35. Production costs include direct materials, direct labour, and manufacturing overhead.

Chapter 2 – Basic Managerial Accounting Concepts

- a. True
- b. False

ANSWER: True

36. Research and development costs would generally be classified as period costs.

- a. True
- b. False

ANSWER: True

37. Research and development costs would generally be classified as manufacturing costs.

- a. True
- b. False

ANSWER: False

38. Cost of goods manufactured represents the cost of direct materials, direct labour, and manufacturing overhead incurred relating to goods sold during the current accounting period.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

40. Sales revenue equals the sales price per unit times the number of units in inventory.

- a. True
- b. False

ANSWER: False

41. Gross margin equals revenue minus cost of goods manufactured.

- a. True
- b. False

ANSWER: False

42. What are expired costs?

- a. assets
- b. profit
- c. expenses
- d. revenues

ANSWER: c

43. In terms of managerial accounting, what is the best definition of cost?

Chapter 2 – Basic Managerial Accounting Concepts

- a. the equivalent of the cost of goods sold
- b. the asset incurred to produce future benefits
- c. a dollar measure of the cash used to achieve a given benefit
- d. the amount sacrificed for goods expected to bring future benefit to the organization

ANSWER: d

44. Which statement best describes sales price per unit?
- a. It is equal to the revenue.
 - b. It is the same as total cost.
 - c. It is the same as cost per unit plus income per unit.
 - d. It must be less than cost for the firm to earn income.

ANSWER: c

45. Which of the following best describes the term *assigning costs*?
- a. the way costs are measured and recorded
 - b. the way companies can tell what money was spent
 - c. the benefit given up when one choice is made over another
 - d. the allocation applied to a cost object using a reasonable method

ANSWER: d

46. Which statement best describes a main purpose of assigning costs to cost objects?
- a. It provides information on why money was spent.
 - b. It records the historical events of the organization.
 - c. It allows management to incorporate products in marketing.
 - d. It facilitates service businesses in following financial regulations.

ANSWER: a

47. Which statement best describes indirect costs?
- a. Indirect costs include all labour.
 - b. Indirect costs should always be assigned to a cost object.
 - c. Indirect costs can be easily and accurately traced to a cost object.
 - d. Indirect costs are shared between or among more than one cost object.

ANSWER: d

48. What is the behaviour pattern of a variable cost?
- a. It increases in total as output increases.
 - b. It increases per unit as output increases.
 - c. It decreases per unit as output increases.
 - d. It remains constant in total at all levels of output.

ANSWER: a

Chapter 2 – Basic Managerial Accounting Concepts

49. What is opportunity cost?

- a. a benefit that is difficult to accurately trace to a cost object
- b. a cost that increases as output increases and decreases as output decreases
- c. a cost that decreases as output increases and increases as output decreases
- d. a benefit given up or sacrificed when one alternative is chosen over another

ANSWER: d

50. Which of the following is included in nonmanufacturing costs?

- a. marketing
- b. direct materials
- c. indirect materials
- d. manufacturing overhead

ANSWER: a

51. Which of the following describes cost of goods manufactured?

- a. the cost of direct materials used in production
- b. the product cost of goods sold during the current period
- c. the cost remaining in ending work-in-process inventory
- d. the product cost of goods completed during the current period

ANSWER: d

52. What is an example of an intangible product?

- a. computers
- b. dental care
- c. hamburgers
- d. automobiles

ANSWER: b

53. What is an example of a tangible product?

- a. furniture
- b. funeral care
- c. legal services
- d. video rental

ANSWER: a

54. What type of organization is the Hudson Bay Company?

- a. service organization
- b. production organization
- c. manufacturing organization
- d. merchandising organization

ANSWER: d

Chapter 2 – Basic Managerial Accounting Concepts

55. Into which two major functional categories are costs subdivided?

- a. prime and conversion
- b. opportunity and direct
- c. selling and administration
- d. production and nonproduction

ANSWER: d

56. Which statement best describes product costs?

- a. Product costs are manufacturing costs.
- b. Product costs do not include direct materials.
- c. Product costs do not include manufacturing overhead.
- d. Product costs are direct materials and direct labour costs only.

ANSWER: a

57. Which of the following are production costs?

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

ANSWER: d

58. Which of the following is an example of a direct materials cost?

- a. glue used to build furniture
- b. wood used to make furniture
- c. nails used to construct furniture
- d. screws used to manufacture furniture

ANSWER: b

59. Which of the following is an example of a direct materials cost?

- a. the engine in an airplane
- b. the paint on a new bicycle
- c. the nails in a dining room table
- d. the glue used to manufacture furniture

ANSWER: a

60. When do materials in the raw materials account become direct materials?

- a. when they are put into production
- b. when they are returned to the supplier
- c. when the production process is complete
- d. when they are received from the supplier

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER: a

61. Which job position is an example of direct labour?

- a. security guard
- b. maintenance person
- c. production line worker
- d. management accountant

ANSWER: c

62. What type of cost is direct labour?

- a. period cost
- b. inventoriable cost
- c. nonproduction cost
- d. nonmanufacturing cost

ANSWER: b

63. Which expense is included in manufacturing overhead?

- a. advertising for the product
- b. production line worker wages
- c. steel used to manufacture a car
- d. production line supervisor salary

ANSWER: d

64. Which expense is included in manufacturing overhead?

- a. property taxes on the factory
- b. utility costs at the head office
- c. advertising and marketing costs
- d. computers used at the head office

ANSWER: a

65. Which labour cost is included in indirect labour?

- a. the salary of the CEO
- b. the salary of the factory supervisor
- c. the wages of the production line worker
- d. the salary of the vice-president of marketing

ANSWER: b

66. How is per-unit cost of goods manufactured calculated?

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

Chapter 2 – Basic Managerial Accounting Concepts

d. total conversion costs divided by the number of units produced

ANSWER: c

67. How is prime cost calculated?

- a. direct materials cost plus direct labour cost
- b. indirect materials cost plus indirect labour cost
- c. direct labour cost plus manufacturing overhead cost
- d. direct material cost plus manufacturing overhead cost

ANSWER: a

68. How is conversion cost calculated?

- a. product costs plus period costs
- b. direct materials cost plus prime costs
- c. indirect labour cost plus opportunity costs
- d. direct labour cost plus manufacturing overhead cost

ANSWER: d

69. Which of the following is a period cost?

- a. indirect labour
- b. direct materials
- c. indirect materials
- d. depreciation on an office building

ANSWER: d

70. Which statement best describes a period cost?

- a. It is used to calculate product cost.
- b. It includes selling costs and administrative costs.
- c. It is carried in inventory until the goods are sold.
- d. It can be included in manufacturing overhead costs.

ANSWER: b

71. Which of the following is an example of a period cost?

- a. marketing
- b. direct labour
- c. direct materials
- d. manufacturing overhead

ANSWER: a

72. HaulAll Inc. had a per-unit conversion cost of \$4.00 during May and incurred a direct materials cost of \$100,000, direct labour costs of \$110,000, and manufacturing overhead costs of \$50,000. How many units did HaulAll manufacture during May?

- a. 18,000

Chapter 2 – Basic Managerial Accounting Concepts

- b. 30,000
- c. 40,000
- d. 70,000

ANSWER: c

73. Global Inc. manufactured 6,000 units during the month of April and incurred a direct materials cost of \$110,000 and a manufacturing overhead cost of \$50,000. Suppose the per-unit prime cost was \$30.00 per unit. How much direct labour cost did Global incur during April?

- a. \$20,000
- b. \$70,000
- c. \$85,000
- d. \$90,000

ANSWER: b

74. A company's beginning work-in-process inventory is \$120,000, its ending work-in-process inventory is \$160,000, its cost of goods manufactured is \$400,000, and its direct materials used are \$100,000. What are the conversion costs?

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

ANSWER: d

75. During the month of March, Cara, Inc. had total manufacturing costs of \$130,000 and incurred \$40,000 in direct labour costs and \$30,000 in manufacturing overhead costs. The materials inventory on March 1 was \$3,000 less than the materials inventory on March 31. What was the cost of materials purchased during the month?

- a. \$37,000
- b. \$40,000
- c. \$63,000
- d. \$70,000

ANSWER: c

76. When are product costs expensed?

- a. when the product is sold
- b. when the product is finished
- c. when the product begins production
- d. when the product unit cost is calculated

ANSWER: a

77. Ganz, Inc. had materials inventory at July 1 of \$12,000. The materials inventory at July 31 was \$15,000, and the cost of direct materials used in production was \$20,000. What was the cost of materials purchased during the month?

Chapter 2 – Basic Managerial Accounting Concepts

- a. \$17,000
- b. \$20,000
- c. \$23,000
- d. \$35,000

ANSWER: c

78. Selected data concerning the past year's operations of the Intelligent Creatures Corporation are as follows:

Selling and administrative expenses \$225,000

Direct materials used 397,500

Direct labour 450,000

Inventories

Dec. 1 Dec. 31

Direct materials \$36,000 \$42,000

Work-in-process 75,000 84,000

Finished goods 69,000 57,000

What is the cost of direct materials purchased?

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

ANSWER: c

79. How is the cost of goods manufactured calculated?

- a. sales - cost of goods sold
- b. gross margin – other expenses
- c. direct materials cost + direct labour cost + manufacturing overhead cost
- d. total product costs incurred during the current period + beginning work-in-process - ending work-in-process

ANSWER: d

80. Book City had cost of goods sold of \$140,000 for the year ended December 31. The finished goods inventory on January 1 was \$35,000 and the finished goods inventory on December 31 was \$17,000. What was the amount of cost of goods manufactured for the year?

- a. \$52,000
- b. \$157,000
- c. \$158,000
- d. \$122,000

ANSWER: d

81. Assuming a separate schedule of cost of goods manufactured, which of the following is found on a manufacturer's income statement?

Chapter 2 – Basic Managerial Accounting Concepts

- a. direct labour
- b. direct materials
- c. work-in-process
- d. cost of goods sold

ANSWER: d

82. What three categories separate the expenses on a manufacturer's income statement?

- a. variable, fixed, and direct
- b. production, period, and indirect
- c. production, selling, and administrative
- d. materials, work-in-process, and finished goods

ANSWER: c

83. Which statement best describes cost of goods sold?

- a. Cost of goods sold is the total product cost on the balance sheet.
- b. Cost of goods sold is a cost that should generally be more than the revenue.
- c. Cost of goods sold is the total product cost for the units sold during a period.
- d. Cost of goods sold is generally recorded as soon as products are manufactured.

ANSWER: c

84. Blue Water Inc. had a gross margin for the month of February totalling \$92,000. The company sold 6,000 units during the month at a sales price of \$30 per unit. What was the amount of cost of goods sold for the month?

- a. \$42,000
- b. \$88,000
- c. \$100,000
- d. \$158,000

ANSWER: b

85. What is the formula to calculate gross margin?

- a. sales revenue - cost of goods sold
- b. sales revenue - selling and administrative expenses
- c. total product costs + beginning work-in-process - ending work-in-process
- d. cost of goods manufactured + beginning finished goods inventory - ending finished goods inventory

ANSWER: a

86. What is the formula to calculate operating income?

- a. sales revenue - selling and administrative expenses
- b. gross margin - selling expenses + selling and administrative expenses
- c. sales revenue - cost of goods sold + selling and administrative expenses
- d. sales revenue - cost of goods sold - selling and administrative expenses

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER: d

87. Information from the records of Island Timberlands Inc. for November is as follows:

Sales \$820,000
Selling and administrative expenses 140,000
Direct materials purchases 176,000
Direct labour 200,000
Manufacturing overhead 270,000
Direct materials, November 1 24,000
Work-in-process, November 1 50,000
Finished goods, November 1 46,000
Direct materials, November 30 28,000
Work-in-process, November 30 56,000
Finished goods, November 30 38,000

What is the net income for the month of November?

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

ANSWER: a

88. What can generally be found on the income statements of both a manufacturer and a service organization?

- a. cash
- b. cost of goods sold
- c. accumulated amortization
- d. selling and administrative expenses

ANSWER: d

89. What would generally NOT be found on the income statement of a service organization?

- a. net sales
- b. selling expenses
- c. operating income
- d. cost of goods sold

ANSWER: d

90. Which term is used for the cost of the partially completed goods at the end of the period?

- a. the cost of goods manufactured
- b. the ending finished goods inventory
- c. the ending work-in-process inventory
- d. the beginning work-in-process inventory

ANSWER: c

Chapter 2 – Basic Managerial Accounting Concepts

91. During the month of May, Blackburn Inc. had cost of goods manufactured of \$120,000, direct materials cost of \$60,000, direct labour cost of \$37,000, and manufacturing overhead cost of \$26,000. The work-in-process balance at May 31 equalled \$10,000. What was the work-in-process balance on May 1?

- a. \$7,000
- b. \$10,000
- c. \$13,000
- d. \$115,000

ANSWER: a

92. How many inventory accounts does a typical manufacturer have?

- a. 1
- b. 2
- c. 3
- d. 4

ANSWER: c

93. Which statement best describes the income statement of a manufacturer?

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

ANSWER: a

94. What would be found on the balance sheet of a manufacturer and NOT on the balance sheet of a service business?

- a. cash
- b. gross profit
- c. work-in-process
- d. cost of goods manufactured

ANSWER: c

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

- a. revenue
- b. cost of goods sold
- c. work in progress inventory
- d. cost of goods manufactured

ANSWER: c

96. Which of the following reflects the formula to calculate gross margin percent?

- a. gross margin/sales revenue
- b. sales revenue/gross margin
- c. operating income/sales revenue

Chapter 2 – Basic Managerial Accounting Concepts

d. gross margin/cost of goods sold

ANSWER: a

TechCom Inc.

TechCom Inc. manufactures laptops. Last month, direct materials (e.g., computer components) costing \$600,000 were put into production. Direct labour of \$900,000 was incurred, manufacturing overhead equalled \$500,000, and selling and administrative costs totalled \$400,000. The company manufactured 10,000 laptops during the month. Assume the company had no beginning or ending work-in-process balances.

97. Refer to TechCom Inc. What were the total product costs last month?

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

ANSWER: d

98. Refer to TechCom Inc. What was the total per-unit prime cost last month?

- a. \$62.50
- b. \$150.00
- c. \$162.50
- d. \$263.75

ANSWER: b

99. Refer to TechCom Inc. What was the per-unit conversion cost last month?

- a. \$100.00
- b. \$140.00
- c. \$162.50
- d. \$218.00

ANSWER: b

100. Refer to TechCom Inc. What was the amount of cost of goods manufactured last month?

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

ANSWER: d

ComPrint Co

ComPrint Co. had the following beginning and ending inventory balances:

January 1 December 31

Materials \$10,000 \$ 8,000

Work-in-process \$18,000 \$17,000

Finished Goods \$21,000 \$16,500

Chapter 2 – Basic Managerial Accounting Concepts

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

101. Refer to ComPrint Co. What were the total manufacturing costs for the year?
- a. \$101,000
 - b. \$102,000
 - c. \$106,500
 - d. \$123,000

ANSWER: a

102. Refer to ComPrint Co. What was the amount of Cost of Goods Manufactured for the year?
- a. \$100,000
 - b. \$101,000
 - c. \$102,000
 - d. \$124,000

ANSWER: c

103. Refer to ComPrint Co. What was the amount of cost of goods sold for the year?
- a. \$97,500
 - b. \$102,000
 - c. \$106,500
 - d. \$128,500

ANSWER: c

104. Refer to ComPrint Co. What was the operating income or loss for the year?
- a. \$(3,500)
 - b. \$5,500
 - c. \$18,500
 - d. \$125,000

ANSWER: a

Becker Corporation

Information from the records of Becker Corporation for December is as follows:

Sales	\$1,230,000
Selling and administrative expenses	210,000
Direct materials used	300,000
Direct labour	350,000
Manufacturing overhead	455,000

Inventories

Dec. 1 Dec. 31

Chapter 2 – Basic Managerial Accounting Concepts

Direct materials	\$36,000	\$42,000
Work-in-process	75,000	84,000
Finished goods	69,000	57,000

105. Refer to Becker Corporation. What are the conversion costs?

- a. \$564,000
- b. \$805,000
- c. \$960,000
- d. \$1,179,000

ANSWER: b

106. Refer to Becker Corporation . What are the prime costs?

- a. \$564,000
- b. \$650,000
- c. \$805,000
- d. \$969,000

ANSWER: b

Big Blue Bubble Company

Big Blue Bubble Company produces a product with the following per-unit costs:

Direct materials \$15
Direct labour 10
Manufacturing overhead 15

Last year, the company produced and sold 750 units at a sales price of \$80 each. Total selling and administrative expense was \$25,000.

107. Refer to Big Blue Bubble Company. What was the prime cost per unit?

- a. \$11
- b. \$25
- c. \$30
- d. \$34

ANSWER: b

108. Refer to Big Blue Bubble Company. Assuming no beginning or ending inventories, what was the cost of goods sold last year?

- a. \$14,250
- b. \$30,000
- c. \$47,500
- d. \$51,000

ANSWER: b

109. Refer to Big Blue Bubble Company. What was the total operating income last year?

Chapter 2 – Basic Managerial Accounting Concepts

- a. \$5,000
- b. \$25,500
- c. \$29,000
- d. \$51,000

ANSWER: a

Econo Company

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

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

110. Refer to Econo Company. What was the cost of direct materials used in July?

- a. \$20,100
- b. \$20,500
- c. \$21,000
- d. \$21,900

ANSWER: a

111. Refer to Econo Company. What were the total manufacturing costs in July?

- a. \$50,000
- b. \$69,600
- c. \$70,100
- d. \$71,000

ANSWER: c

112. Refer to Econo Company. What was the cost of goods manufactured for July?

- a. \$69,100
- b. \$69,600
- c. \$70,500
- d. \$70,700

ANSWER: b

113. Refer to Econo Company. What was the cost of goods sold for July?

- a. \$69,600
- b. \$70,200
- c. \$71,100
- d. \$71,300

ANSWER: b

Chapter 2 – Basic Managerial Accounting Concepts

114. Refer to Econo Company. Suppose the company sold 10,000 units during July and gross margin totalled \$29,800. What would be the sales price per unit?

- a. \$9.94
- b. \$10.00
- c. \$10.09
- d. \$10.11

ANSWER: b

Ballard Company

Ballard Company makes portable speakers. During the year Ballard manufactured 100,000 sets of portable speakers. Finished goods inventory had the following units on hand:

January 1 1,260
December 31 1,040

115. Refer to Ballard Company. How many sets of portable speakers did the company sell during the year?

- a. 96,780
- b. 97,000
- c. 97,220
- d. 100,220

ANSWER: d

116. Refer to Ballard Company. Suppose each set of portable speakers has a per-unit product cost of \$112. What would be the cost of finished goods inventory on December 31?

- a. \$24,640
- b. \$116,480
- c. \$124,640
- d. \$141,120

ANSWER: b

117. Refer to Ballard Company. Suppose each set of portable speakers has a per-unit product cost of \$112. What would be the cost of goods sold last year?

- a. \$10,839,360
- b. \$10,864,000
- c. \$11,224,640
- d. \$11,555,120

ANSWER: c

Quest Company

Last year Quest Company incurred the following costs:

Direct materials \$40,000
Direct labour 60,000
Manufacturing overhead 90,000

Chapter 2 – Basic Managerial Accounting Concepts

Selling expenses 24,000

Administrative expenses 22,000

Quest produced and sold 2,000 units at a sales price of \$125 each. Assume that there were no beginning or ending inventories.

118. Refer to Quest Company. What was the total period cost?

- a. \$24,000
- b. \$46,000
- c. \$190,000
- d. \$250,000

ANSWER: b

119. Refer to Quest Company. What were the total product costs?

- a. \$100,000
- b. \$150,000
- c. \$190,000
- d. \$236,000

ANSWER: c

120. Refer to Quest Company. What was the conversion cost per unit?

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

ANSWER: b

121. Refer to Quest Company. What was the gross margin per unit?

- a. \$7
- b. \$30
- c. \$95
- d. \$125

ANSWER: b

Bowring Company

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

Per-unit product cost: \$30

Gross margin percentage: 40%

Selling and administrative expenses \$30,000

Operating income \$10,000

122. Refer to Bowring Company. What was the gross margin for the year?

- a. \$40,000

Chapter 2 – Basic Managerial Accounting Concepts

- b. \$50,000
- c. \$60,000
- d. \$100,000

ANSWER: a

123. Refer to Bowring Company. What was the cost of goods sold for the year?

- a. \$40,000
- b. \$50,000
- c. \$60,000
- d. \$100,000

ANSWER: c

124. Refer to Bowring Company. How many units were sold during the year?

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

ANSWER: c

125. Refer to Bowring Company. What was the sales price per unit?

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

ANSWER: d

Katz Group

Katz Group had the following income statement for the month of May.

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

126. Refer to Katz Group. What was the sales revenue percentage?

- a. 16%
- b. 48%
- c. 52%
- d. 100%

ANSWER: d

Chapter 2 – Basic Managerial Accounting Concepts

127. Refer to Katz Group. What was the cost of goods sold percentage?

- a. 19%
- b. 48%
- c. 52%
- d. 100%

ANSWER: b

128. Refer to Katz Group. What was the gross margin percentage?

- a. 17%
- b. 19%
- c. 48%
- d. 52%

ANSWER: d

129. Refer to Katz Group. What was the selling expense percentage?

- a. 15%
- b. 16%
- c. 17%
- d. 19%

ANSWER: c

130. Refer to Katz Group. What was the administrative expense percentage?

- a. 15%
- b. 16%
- c. 17%
- d. 19%

ANSWER: c

131. Refer to Katz Group. What was the operating income percentage?

- a. 16%
- b. 17%
- c. 19%
- d. 21%

ANSWER: a

132. The T & T Company makes fishing rods. During the current month, direct materials costing \$126,000 were put into production. Direct labour costs of \$110,000 were incurred and manufacturing overhead equalled \$100,000. Selling and administrative expenses totalled \$66,000 for the month, and the company manufactured 3,500 fishing rods. Assume there was no beginning inventory and that 3,000 fishing rods were sold.

Required:

A. Calculate the per-unit product cost.

Chapter 2 – Basic Managerial Accounting Concepts

- B. Calculate the per-unit prime cost.
- C. Calculate the per-unit conversion cost.
- D. Calculate cost of goods sold for the month?
- E. Calculate the cost of ending finished goods for the month?

ANSWER: A. $\$126,000$ (DM) + $\$110,000$ (DL) + $\$100,000$ (MOH) = $\$336,000$ / 3,500 units = $\$96$
B. $\$126,000$ (DM) + $\$110,000$ (DL) = $\$236,000$ Prime Costs / 3,500 units = $\$67.43$
C. $\$110,000$ (DL) + $\$100,000$ (MOH) = $\$210,000$ Conversion Costs / 3,500 units = $\$60$
D. $(\$96 \times 3,000) = \$288,000$ COGS
E. 3,500 units produced – 3,000 units sold = 500 units FG Inventory (end) @ $\$96 = \$48,000$ FG Inventory (end)

133. Explain the difference between a period cost and a product cost.

ANSWER: A period cost is a nonmanufacturing cost that is expensed during the current period rather than inventoried. Examples of period costs would be selling and administrative costs. A product cost is a manufacturing cost that is inventoried and later expensed as cost of goods sold only when the goods have been sold. Product costs are classified as direct materials, direct labour, or manufacturing overhead.

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

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

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

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

136. Explain the difference between an inventoriable cost and a non-inventoriable cost.

ANSWER: An inventoriable cost is a cost of manufacturing the product. Inventoriable costs are also referred to as product costs and manufacturing costs. They include direct materials, direct labour, and manufacturing overhead. Inventoriable costs are not expensed until the goods are sold. A non-inventoriable cost is a selling or administrative cost that is expensed immediately in the accounting period that it is incurred. Non-inventoriable costs are also referred to as period costs or non-manufacturing costs.

137. List the types of inventory accounts that a service business, retailer, and manufacturer would have in their accounting records.

ANSWER: Service businesses would have no inventory account to record the items they would sell because they have intangible products that are not inventoried. They may have a supplies inventory account only. A retailer or merchandiser would have a merchandise inventory account recording the cost of the

Chapter 2 – Basic Managerial Accounting Concepts

items they have available for resale. A manufacturer would have a raw or direct material inventory account, a WIP (work in progress) inventory account, and a finished goods inventory account.

ANS: c

Owen Sound Company

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

138. Refer to Owen Sound Company. Calculate the per-unit product cost.

ANSWER: $\$516,000 \text{ (DM)} + \$430,000 \text{ (DL)} + \$645,000 \text{ (MOH)} = \$1,591,000 \text{ Mfg Costs} / 86,000 = \18.50

139. Refer to Owen Sound Company. Calculate the per-unit prime cost.

ANSWER: $\$516,000 \text{ (DM)} + \$430,000 \text{ (DL)} = \$946,000 \text{ Prime Costs} / 86,000 = \11.00

140. Refer to Owen Sound Company. Calculate the per-unit conversion cost.

ANSWER: $\$430,000 \text{ (DL)} + \$645,000 \text{ (MOH)} = \$1,075,000 \text{ Conversion Costs} / 86,000 = \12.50

141. Refer to Owen Sound Company. Calculate the selling and administrative expenses for the year.

ANSWER: Gross margin \$215,000
 Less: sell and admin. \$157,000
 Operating income \$ 58,000

142. Refer to Owen Sound Company. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Calculate cost of goods sold.

ANSWER: $(80,000 \times \$18.50) = \$1,480,000$

143. Refer to Owen Sound Company. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Calculate the balance in ending finished goods inventory.

ANSWER: $86,000 \text{ units produced} - 80,000 \text{ units sold} = 6,000 \text{ units FG Inventory (end)}$
 $6,000 \text{ units} \times \$18.50 = \$111,000$

144. Refer to Owen Sound Company. Calculate the gross margin for the year.

ANSWER: Sales $(86,000 \times \$21)$ \$1,806,000
 COGS $(86,000 \times \$18.50)$ 1,591,000
 Gross margin \$ 215,000

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

Required:

A. Calculate how many units were sold last year.

Chapter 2 – Basic Managerial Accounting Concepts

- B. Calculate the cost of direct materials used.
- C. Calculate the cost of manufacturing overhead.
- D. Calculate the gross margin for the year.
- E. Calculate operating income.

ANSWER: A. Cost of goods sold $\$560,000 / \$56 = 10,000$ units
 B. $10,000 \times \$34 - (\$200,000 \text{ of direct labour cost}) = \$140,000$
 C. $10,000 \times \$42 - (\$200,000 \text{ of direct labour cost}) = \$220,000$
 D. Sales revenue $(10,000 \times \$100)$ \$1,000,000
 Cost of goods sold \$ 560,000
 Gross margin \$ 440,000
 E. Gross margin \$ 440,000
 Less: sell and admin. \$ 240,000
 Operating income \$ 200,000

146. Tamarack Company, a manufacturing firm, has supplied the following information from its accounting records for the month of June.

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

Required: Prepare a statement of cost of goods manufactured

ANSWER: Tamarack Company
 Statement of Cost of Goods Manufactured
 For the month ended June 30
 Materials inventory, June 1 \$ 1,475
 Materials purchased 17,000
 Materials available for use 18,475
 Materials inventory, June 30 (1,200)
 Materials used \$17,275
 Direct labour 12,000
 Manufacturing overhead 7,000
 Total manufacturing costs 36,275
 Work-in-process, June 1 2,000
 Work-in-process, June 30 (2,800)
 Cost of goods manufactured \$35,475

147. In June, Olympic Company purchased materials costing \$38,000, and incurred direct labour costs of

Chapter 2 – Basic Managerial Accounting Concepts

\$42,000. Manufacturing overhead totalled \$27,000 for the month. Information on inventories was as follows.

June 1 June 30

Materials \$3,000 \$2,700

Work-in-process 1,000 1,275

Finished goods 2,500 1,775

Required:

A. Calculate the cost of direct materials used during June.

B. Calculate the total manufacturing cost for June.

C. Calculate the cost of goods manufactured for June.

D. Calculate cost of goods sold for June.

ANSWER: A. Materials, 6/1 \$ 3,000

Purchases 38,000

Materials, 6/30 (2,700)

Materials used \$ 38,300

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

C. Total manufacturing costs \$107,300

Work-in-process, 6/1 1,000

Work-in-process, 6/30 (1,275)

Cost of goods manufactured \$107,025

D. Cost of goods manufactured \$107,025

Finished goods, 6/1 2,500

Finished goods, 6/30 (1,775)

Cost of goods sold \$107,750

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

Factory supplies used \$18,000

Depreciation on factory building 17,000

Salary of company controller 6,000

Factory janitorial costs 5,000

Marketing and promotion 4,500

Direct labour cost 22,000

Purchases of raw materials 10,000

Finished goods inventory, Nov. 1 2,250

Finished goods inventory, Nov. 30 3,750

Work-in-process inventory, Nov. 1 4,200

Work-in-process inventory, Nov. 30 2,750

Materials inventory, Nov. 1 3,500

Materials inventory, Nov. 30 5,100

Required:

A. Prepare a statement of cost of goods manufactured.

B. Prepare a statement of cost of goods sold.

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER: Thompson Company
 Statement of Cost of Goods Manufactured
 For the month of November
 Materials inventory, Nov. 1 \$ 3,500
 Purchases of materials 10,000
 Materials inventory, Nov. 30 (5,100)
 Materials used \$ 8,400
 Direct labour 22,000
 Manufacturing overhead 40,000
 Total manufacturing costs 70,400
 Work-in-process inventory, Nov. 1 4,200
 Work-in-process inventory, Nov. 30 (2,750)
 Cost of goods manufactured \$71,850

Templar Company
 Statement of Cost of Goods Sold
 For the month of November
 Cost of goods manufactured \$71,850
 Finished goods inventory, Nov. 1 2,250
 Finished goods inventory, Nov. 30 (3,750)
 Cost of goods sold \$70,350

149. Nelvana Company makes tablets. During the year, Nelvana manufactured and sold 75,000 tablets at a sales price of \$600 per unit. Nelvana’s per-unit product cost was \$540, and selling and administrative expenses totalled \$3,200,000.

Required:

- A. Calculate the total sales revenue.
- B. Calculate the gross margin.
- C. Calculate the operating income.
- D. Calculate the operating income if 75,000 tablets were produced and 69,000 were sold.

ANSWER: A. $75,000 \times \$600 = \$45,000,000$

B. Sales revenue \$45,000,000
 Cost of goods sold
 $(75,000 \times \$540)$ 40,500,000
 Gross margin \$ 4,500,000

C. Gross margin \$ 4,500,000
 Selling and adm. expenses 3,200,000
 Operating income \$ 1,300,000

D. Sales revenue $(69,000 \times \$600)$ \$41,400,000
 Cost of goods sold $(69,000 \times \$540)$ \$37,260,000
 Gross margin \$ 4,140,000
 Selling and adm. expenses \$ 3,200,000
 Operating income \$ 940,000

Chapter 2 – Basic Managerial Accounting Concepts

150. Prairie Plant Company supplied the following data at the end of the current year:

Sales commissions \$ 15,000
 Sales revenue 150,000
 Research and development 17,000
 Finished goods inventory, Jan. 1 7,500
 Work-in-process inventory, Jan 1 9,000
 Finished goods inventory, Dec. 31 6,000
 Work-in-process inventory, Dec. 31 11,000
 Cost of goods manufactured 50,000

Required: Prepare an income statement for Prairie Plant Company.

ANSWER: Prairie Plant Company

Income Statement

For the year ended December 31

Sales revenue \$150,000

Cost of goods sold* 51,500

Gross margin 98,500

Less:

Selling expense 15,000

Administrative expense 17,000

Operating income \$ 66,500

*Cost of goods manufactured \$ 50,000

Finished goods inventory, Jan. 1 7,500

Finished Goods inventory, Dec. 31 (6,000)

151. Nexient Company supplied the following data and information on inventories at the end of the current year.

J January 1 December 31

Materials \$21,000 \$23,500

Work-in-process 17,500 8,500

Finished goods 26,000 27,000

Direct labour \$ 40,000

Selling expenses 31,000

Sales revenue 400,000

Administrative expenses 14,500

Purchases of raw materials 62,000

Factory supervision 50,000

Factory supplies used 25,000

Required: Prepare an income statement of Nexient Company for the current year

ANSWER: Nexient Company

Income Statement

For the year ended December 31

Sales revenue \$ 400,000

Cost of goods sold* 182,500

Gross margin 217,500

Chapter 2 – Basic Managerial Accounting Concepts

Less:

Selling expenses 31,000
 Administrative expenses 14,500
 Operating income \$172,000

*Cost of goods manufactured** \$183,500
 Finished goods inventory, Jan. 1 26,000
 Finished goods inventory, Dec. 31 (27,000)
 Cost of goods sold \$182,500

**Purchases of raw materials \$ 62,000
 Materials inventory, 1/1 21,000
 Materials inventory, 12/31 (23,500)
 Materials used 59,500
 Direct labour 40,000
 Manufacturing overhead (\$50,000 + \$25,000) 75,000
 Total manufacturing costs 174,500
 Work-in-process inventory, Jan. 1 17,500
 Work-in-process inventory, Dec. 31 (8,500)
 Cost of goods manufactured \$183,500

152. Jackson Grills has supplied the following information from its accounting records for the month of August.

Direct labour cost \$11,500
 Purchases of raw materials 20,000
 Factory depreciation 7,500
 Advertising 10,000
 Factory property taxes 6,500
 Materials inventory, 8/1 1,250
 Materials inventory, 8/31 2,500
 Work-in-process inventory, 8/1 ?
 Work-in-process inventory, 8/31 1,500
 Cost of goods manufactured 45,850
 Sales revenue ?
 Executive salary cost 25,000
 Finished goods inventory, 8/1 5,500
 Finished goods inventory, 8/31 4,250
 Operating income 67,900
 Gross margin ?

Required: Solve for the missing amounts (?).

ANSWER: Jackson Grills
 Schedule of Cost of Goods Manufactured
 For the month of August
 Materials inventory, 8/1 \$ 1,250
 Purchases of materials 20,000
 Materials inventory, 8/31 (2,500)
 Materials used \$18,750

Chapter 2 – Basic Managerial Accounting Concepts

Direct labour 11,500
 Manufacturing overhead (7,500 + 6,500) 14,000
 Total manufacturing costs 44,250
 Work-in-process, 8/1 3,100
 Work-in-process, 8/31 (1,500)
 Cost of goods manufactured \$45,850

Jackson Grills
 Income Statement
 For the month of August
 Sales revenue \$150,000
 Cost of goods sold* 47,100
 Gross margin 102,900
 Less:
 Selling expense 10,000
 Administrative expense 25,000
 Operating income \$ 67,900

*Cost of goods manufactured \$ 45,850
 Finished goods inventory, 8/1 5,500
 Finished goods inventory, 8/31 (4,250)
 Cost of goods sold \$ 47,100

153. See the following separate cases.

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

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

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

154. See the following separate cases.

Chapter 2 – Basic Managerial Accounting Concepts

Case #1 Case #2

Purchase of materials \$ 5,000 C
 Materials inventory (beginning balance) A 220
 Materials inventory (ending balance) 1,000 350
 Direct labour 7,000 4,250
 Factory supervision 1,500 1,100
 Factory supplies 1,250 900
 Total manufacturing costs 14,500 D
 Work-in-process inventory (beginning balance) 1,200 1,230
 Work-in-process inventory (ending balance) B 650
 Cost of goods manufactured 14,600 10,200

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

ANSWER: Case #1 Case #2

Purchases of materials \$ 5,000 \$ 3,500
 Materials inventory (beginning balance) 750 220
 Materials inventory (ending balance) (1,000) (350)
 Materials used 4,750 3,370
 Direct labour 7,000 4,250
 Manufacturing overhead 2,750 2,000
 Total manufacturing costs 14,500 9,620
 Work-in-process inventory, (beginning balance) 1,200 1,230
 Work-in-process inventory, (ending balance) (1,100) (650)
 Cost of goods manufactured \$14,600 \$10,200

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

Cost of goods sold percentage 62%
 Selling expense percentage 6%
 Administrative expense 13%

Required: Reconstruct Rizzuto's Income Statement for January assuming that the total sales revenue for the month equalled \$500,000.

ANSWER: Rizzuto Company

Income Statement
 For the month of January
 Sales revenue \$500,000
 Cost of goods sold (500,000 × 62%) 310,000
 Gross margin (500,000 × 38%) \$190,000
 Less:
 Selling expense (500,000 × 6%) 30,000
 Administrative expense (500,000 × 13%) 65,000
 Operating income \$ 95,000

156. Fairchild Group's accountant prepared the following Income Statement for the month of August.

Fairchild Group

Chapter 2 – Basic Managerial Accounting Concepts

Income Statement

For the month of August

Sales revenue \$912,200

Cost of goods sold 601,920

Gross margin 310,080

Less:

Selling expense 164,160

Administrative expense 63,840

Operating income \$ 82,080

Required:

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

ANSWER: A. $912,000 \text{ (Sales)} / 912,000 \text{ (Sales)} = 100\%$
 B. $601,920 \text{ (COGS)} / 912,000 \text{ (Sales)} = 66\%$
 C. $310,080 \text{ (GM)} / 912,000 \text{ (Sales)} = 34\%$
 D. $164,160 \text{ (Selling)} / 912,000 \text{ (Sales)} = 18\%$
 E. $63,840 \text{ (Admin)} / 912,000 \text{ (Sales)} = 7\%$
 F. $82,080 \text{ (Operating Income)} / 912,000 \text{ (Sales)} = 9\%$

157. Corby Distilleries supplied the following data at the end of the current year.

Finished goods inventory, Jan 1. \$12,000

Finished goods inventory, Dec. 31 7,500

Cost of goods manufactured 152,380

Sales revenue 212,000

Sales commissions 19,080

Research and development costs 15,900

Required:

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

ANSWER: A. Cost of goods manufactured \$152,380
 Finished goods inventory, 1/1 12,000
 Finished goods inventory, 12/31 (7,500)
 Cost of goods sold \$156,880
 $\$156,880 \text{ (COGS)} / \$212,000 \text{ (Sales)} = 74\%$

B.
 Sales revenue \$212,000

Chapter 2 – Basic Managerial Accounting Concepts

Cost of goods sold 156,880

Gross margin \$ 55,120

$$\$55,120 \text{ (GM)} / 212,000 \text{ (Sales)} = 26\%$$

C. $19,080 \text{ (Selling)} / 212,000 \text{ (Sales)} = 9\%$

D. $15,900 \text{ (Admin)} / 212,000 \text{ (Sales)} = 7.5\%$

E.

Gross margin \$ 55,120

Less:

Selling expense 19,080

Administrative expense 15,900

Operating income \$ 20,140

$$\$20,140 \text{ (Operating Income)} / 212,000 \text{ (Sales)} = 9.5\%$$

158. Pigeon Company supplied the following information for the month of December.

Operating income percentage 10.5%

Gross margin percentage 30%

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

A. sales revenue

B. cost of goods sold

C. total selling and administrative expenses

ANSWER:

A. Sales revenue = $\$44,100 / .105 = 420,000$

B. Cost of goods sold = $420,000 \times .70 = \$294,000$

C. Gross margin ($\$420,000 \times .30$) 126,000

Less: selling and administrative exp. 81,900

Operating income \$44,100

159. Arche produces a product with the following per unit costs.

Direct materials \$17

Direct labour 11

Manufacturing overhead 12

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

Required: Solve for the following:

A. total cost of goods sold for last year

B. operating income for last year

C. total gross margin for last year

D. prime cost per unit

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER:

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

B. & C. Sales revenue $(3,000 \times 80)$ \$240,000

Cost of goods sold 120,000

Gross margin 120,000

Less:

Selling and administrative expenses 25,000

Operating income \$ 95,000

D. $17 + 11 = \$28$

160. Allied Company showed the following costs for last month.

Direct materials \$40,000

Direct labour 35,000

Manufacturing overhead 52,000

Selling expense 17,000

Administrative expense 12,000

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

Required: Solve for the following amounts.

A. total product cost for last month

B. unit product cost for last month

C. total period costs

D. gross margin for last month

E. operating income for last month

ANSWER:

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

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

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

D & E. Sales revenue $(20,000 \times \$18)$ \$360,000

Cost of goods sold 127,000

Gross margin 233,000

Less:

Selling expense 17,000

Administrative expense 12,000

Operating income \$204,000

161. Explain the difference between total manufacturing costs and cost of goods manufactured.

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

Chapter 2 – Basic Managerial Accounting Concepts

Select the appropriate classification of each of the costs listed below.

Each classification may be used more than once, and it is possible that one or more of the classifications may not be used at all.

- a. Product Cost, Direct Material
- b. Product Cost, Direct Labour
- c. Product Cost, Manufacturing Overhead
- d. Product Cost, Selling Expense
- e. Product Cost, Administrative Expense
- f. Period Cost, Direct Material
- g. Period Cost, Direct Labour
- h. Period Cost, Manufacturing Overhead
- i. Period Cost, Selling Expense
- j. Period Cost, Administrative Expense

162. CEO's salary

ANSWER: j

163. Controller's salary

ANSWER: j

164. Factory manager's salary

ANSWER: c

165. Factory supervisor's salary

ANSWER: c

166. Factory assembly line worker's wages

ANSWER: b

167. Wood used in the production process

ANSWER: a

168. Cost of nails used by a furniture builder

ANSWER: c

169. Screws used in the production process

ANSWER: c

170. Sugar used in cookie production

ANSWER: a

171. Cost of engines in the manufacture of airplanes

ANSWER: a

Chapter 2 – Basic Managerial Accounting Concepts

172. Cost of lubricating production machinery

ANSWER: c

173. Janitorial supplies for the factory

ANSWER: c

174. Research and development costs

ANSWER: j

175. National advertising campaign costs

ANSWER: i

176. Fees paid to the radio station for advertising

ANSWER: i

177. Product shipping costs

ANSWER: i

178. Depreciation on vans used by the sales staff

ANSWER: i

179. Depreciation on furniture in the factory lunchroom

ANSWER: c

180. Property taxes on the factory building

ANSWER: c

181. Factory security costs

ANSWER: c

182. Rental cost of executive Lear jet

ANSWER: j

183. Cost of conference for sales team

ANSWER: i

184. Fees paid to an accounting firm for annual audit

ANSWER: j

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

Each classification may be used more than once, and it is possible that one or more of the classifications may not be used at all.

- a. Tangible
- b. Intangible

185. Accounting firm

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER: b

186. Car manufacturer

ANSWER: a

187. Law firm

ANSWER: b

188. Medical clinic

ANSWER: b

189. Bowling alley

ANSWER: b

190. A&W Restaurant

ANSWER: a

191. iTunes

ANSWER: b

192. Calgary Flames professional hockey team

ANSWER: b

Match each following terms with their correct description from the items listed below.

- a. Period Cost
- b. Direct Cost
- c. Opportunity Cost
- d. Variable Cost
- e. Indirect Cost
- f. Fixed Cost
- g. Product Cost

193. A benefit given up when one alternative is chosen over another

ANSWER: c

194. A cost that stays the same in total regardless of changes in output

ANSWER: f

195. A cost that is difficult to trace to a cost object

ANSWER: e

196. A manufacturing cost

ANSWER: g

197. A cost that is NOT inventoried

Chapter 2 – Basic Managerial Accounting Concepts

ANSWER: a

198. A cost that can be easily traced to a cost object

ANSWER: b

199. A cost that increases in total as output increases

ANSWER: d

Match each following terms with their correct formula from the items listed below.

- a. Per-unit prime cost
- b. Per-unit conversion cost
- c. Per-unit cost of goods manufactured

200. $(\text{direct labour} + \text{manufacturing overhead})/\text{units produced}$

ANSWER: b

201. $(\text{total manufacturing costs} + \text{work-in-process beginning} - \text{work-in-process ending})/\text{units produced}$

ANSWER: c

202. $(\text{direct materials} + \text{direct labour})/\text{units produced}$

ANSWER: a

Match each of the following terms with their correct description from the items listed below.

- a. Gross Margin
- b. Selling Expenses
- c. Sales Revenue
- d. Cost of Goods Sold
- e. Operating Income

203. Gross margin - period costs

ANSWER: e

204. Marketing and distributing costs

ANSWER: b

205. Number of units sold multiplied by sales price per unit

ANSWER: c

206. Sales - cost of goods sold

ANSWER: a

207. Number of units sold multiplied by product cost per unit

ANSWER: d

Match each of the following terms with their correct description from the items listed below.

Name: _____ Class: _____ Date: _____

Chapter 2 – Basic Managerial Accounting Concepts

- a. Work-in-Process Inventory
- b. Finished Goods Inventory
- c. Cost of Goods Sold
- d. Cost of Goods Manufactured
- e. Total Manufacturing Costs

208. The cost of units finished but NOT sold at the end of the current period

ANSWER: b

209. Direct materials + direct labour + manufacturing overhead

ANSWER: e

210. The cost of units unfinished at the end of the current period

ANSWER: a

211. Product cost per-unit \times units sold

ANSWER: c

212. (direct materials + direct labour + manufacturing overhead) \pm the change in work-in-process inventory from the beginning to the end of the current period

ANSWER: d

Match each of the following terms with their correct description from the items listed below.

- a. Income Statement
- b. Cost of Goods Manufactured
- c. Work-in-Process Inventory
- d. Gross Margin
- e. Operating Income

213. Gross margin - selling and administrative expenses

ANSWER: e

214. The difference between sales revenue and cost of goods sold

ANSWER: d

215. The total cost of goods completed during the current period

ANSWER: b

216. Covers a particular period of time

ANSWER: a

217. Cost of partially completed goods

ANSWER: c