

Chapter 1--Managerial Accounting Concepts and Principles

1. Accounting is an information system that provides essential data about the economic activities of an entity to various users to aid them in making informed judgments and decisions.

True False

2. Managerial accounting reports are prepared according to generally accepted accounting principles.

True False

3. Managerial accounting information includes both historical and estimated data.

True False

4. Since there are few rules to restrict how an organization chooses to arrange its own internal data for decision making, managerial accounting provides ample opportunity for creativity and change.

True False

5. A diagram of the operating structure of an organization is called an organization chart.

True False

6. In most business organizations, the chief accountant is called the treasurer.

True False

7. In most business organizations, the chief accountant is called the controller.

True False

8. A staff department or unit is one that provides services, assistance, and advice to the departments with line or other staff responsibilities.

True False

9. The vice presidents of production and sales and the controller hold line positions in most large organizations.

True False

10. A staff department has no direct authority over a line department.

True False

11. The controller's staff consists of management accountants responsible for systems and procedures, general accounting, budgets, taxes, and cost accounting.

True False

12. Managerial accounting reports must be useful to the user of the information.

True False

13. Planning is the process of monitoring operating results and comparing actual results with the expected results.

True False

14. Planning is the process of developing the company's objectives or goals and translating these objectives into courses of action.

True False

15. Control is the process of monitoring operating results and comparing actual results with the expected results.

True False

16. Managerial accounting provides useful information to managers on product costs.

True False

17. The payment of dividends is an example of a cost.

True False

18. A cost can be a payment of cash for the purpose of generating revenues.

True False

19. The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and factory overhead cost.

True False

20. The cost of materials entering directly into the manufacturing process is classified as factory overhead cost.

True False

21. The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.

True False

22. If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.

True False

23. For a construction contractor, the wages of carpenters would be classified as factory overhead cost.

True False

24. For an automotive repair shop, the wages of mechanics would be classified as direct labor cost.

True False

25. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as factory overhead cost.

True False

26. Depreciation on factory plant and equipment is an example of factory overhead cost.

True False

27. Cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.

True False

28. If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part of factory overhead cost.

True False

29. Factory overhead cost is sometimes referred to as factory burden.

True False

30. Conversion cost is the combination of direct labor cost and factory overhead cost.

True False

31. Conversion cost is the combination of direct materials cost and factory overhead cost.

True False

32. Factory overhead is an example of a product cost.

True False

33. Direct labor costs are included in the conversion costs of a product.

True False

34. The costs of materials and labor that do not enter directly into the finished product are classified as factory overhead.

True False

35. The costs of materials and labor that do not enter directly into the finished product are classified as cost of goods sold.

True False

36. Indirect labor would be included in factory overhead.

True False

37. A cost object indicates how costs are related or identified.

True False

38. Direct costs can be specifically traced to a cost object.

True False

39. Indirect costs can be specifically identified to a cost object.

True False

40. Nonmanufacturing costs are classified into two categories: selling and administrative.

True False

41. Prime costs are the combination of direct labor costs and factory overhead costs.

True False

42. Prime costs are the combination of direct materials and direct labor costs.

True False

43. Conversion costs are the combination of direct labor, direct material and factory overhead costs.

True False

44. Product costs are also referred to as inventoriable costs.

True False

45. Period costs include direct materials and direct labor.

True False

46. Period costs can be found in the balance sheet.

True False

47. On the balance sheet for a manufacturing business, the cost of direct materials, direct labor, and factory overhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.

True False

48. Only the value of the inventory that is sold will appear in the income statement.

True False

49. The statement of cost of goods manufactured is an extension of the income statement for a manufacturing company.

True False

50. Managers use managerial information to evaluate performance of a company's operation.

True False

51. Managerial information is for external as well as internal stakeholders.

True False

52. A report analyzing how many products need to be sold to cover operating costs is not typically a managerial accounting report.

True False

53. A report analyzing the dollar savings of purchasing new equipment to speed up the production process is a managerial accounting report.

True False

54. A performance report that identifies the amount of employee downtime is a financial accounting report.

True False

55. Controlling deals with choosing goals and deciding how to achieve them.

True False

56. Goods that are partway through the manufacturing process, but not yet complete, are referred to as materials inventory.

True False

57. Manufacturers use labor, plant, and equipment to convert direct materials into finished products.

True False

58. Product costs are not expensed until the product is sold.

True False

59. The plant manager's salary in a manufacturing business would be considered an indirect cost.

True False

60. Operating expenses are product costs and are expensed when the product is sold.

True False

61. Period costs are operating costs that are expensed in the period in which the goods are sold.

True False

62. Factory overhead includes all manufacturing costs except direct materials and direct labor.

True False

63. Labor costs that are directly traceable to the product are part of factory overhead.

True False

64. Product costs include direct labor and advertising expense.

True False

65. Indirect labor and indirect materials would be part of factory overhead.

True False

66. Prime costs consist of factory overhead and direct labor.

True False

67. Conversion costs consist of product costs and period costs.

True False

68. Prime costs consists of direct materials, indirect materials, and direct labor.

True False

69. Managerial accounting uses only past data in reports to aid management in the decision making process.

True False

70. In order to be useful to managers, management accounting reports should possess all of the following characteristics EXCEPT:

- A. provide objective measures of past operations and subjective estimates about future decisions
- B. be prepared in accordance with generally accepted accounting principles
- C. be provided at any time management needs information
- D. be prepared to report information for any unit of the business to support decision making

71. What is the primary criterion for the preparation of managerial accounting reports?

- A. Relevance of the reports
- B. Meet the manager needs
- C. Timing of the reports
- D. Cost of the reports

72. Which of the following is most associated with managerial accounting?

- A. Must follow GAAP
- B. May rely on estimates and forecasts
- C. Is prepared for users outside the organization.
- D. Always reports on the entire entity

73. Which of the following is most associated with financial accounting?

- A. Can have both objective and subjective information
- B. Can be prepared periodically, or as needed
- C. Prepared in accordance with GAAP
- D. Can be prepared for the entity or segment

74. Which of the following statements is false?

- A. There is no overlap between financial and managerial accounting.
- B. Managerial accounting sometimes relies on past information.
- C. Managerial accounting does not need to conform to GAAP
- D. Financial accounting must conform to GAAP.

75. In most business organizations, the chief management accountant is called the:

- A. chief accounting officer
- B. controller
- C. chairman of the board
- D. chief executive officer

76. All of the following employees hold line positions in Anthea Electric EXCEPT:

- A. vice president of production
- B. vice president of finance
- C. manager of the Valhalla Plant
- D. vice president of sales

77. The controller's staff often consists of several management accountants. All of the following would most likely be on the controller's staff EXCEPT:

- A. general accountants
- B. budgets and budget analysts
- C. investments and shareholder relations managers
- D. cost accountants

78. Managerial accounting

- A. is prepared according to GAAP.
- B. is prepared according to management needs.
- C. is prepared periodically only.
- D. is related to the entire business entity only.

79. Who are the individuals charged with the responsibility for directing the day-to-day operations of a business?

- A. Investors
- B. Managers
- C. Shareholders
- D. Customers

80. Which of the following are basic phases of the management process?

- A. Supervising and directing
- B. Decision making and supervising
- C. Organizing and directing
- D. Planning and controlling

81. What term is used to describe the process of monitoring operating results and comparing actual results with the expected results?

- A. Improving
- B. Controlling
- C. Directing
- D. Planning

82. What term is used to describe the process of developing the organization's objectives and translating those into courses of action?

- A. Supervising
- B. Planning
- C. Improving
- D. Decision making

83. Which of the following is the principle reason for preparing managerial accounting reports?

- A. Usefulness to management
- B. Cost of preparation
- C. Clarity
- D. GAAP

84. Which of the following is not a characteristic of useful managerial accounting reports?

- A. Accuracy
- B. GAAP
- C. historical and estimated data
- D. reports prepared as needed

85. Compute conversion costs given the following data: Direct Materials, \$347,500; Direct Labor, \$186,300; Factory Overhead, \$187,900; and Selling Expenses, \$45,290.

- A. \$533,800
- B. \$187,900
- C. \$721,700
- D. \$374,200

86. Which of the following is false in regards to direct materials for an auto manufacturer?

- A. Steel would probably be a direct material.
- B. Upholstery fabric would probably be a direct material
- C. Oil to lubricate factory machines would not be a direct material.
- D. Small plastic clips to hold on door panels, that become part of the auto, must be accounted for as direct materials.

87. The cost of a manufactured product generally consists of which of the following costs?

- A. Direct materials cost and factory overhead cost
- B. Direct labor cost and factory overhead cost
- C. Direct labor cost, direct materials cost, and factory overhead cost
- D. Direct materials cost and direct labor cost

88. Materials must have which two qualities in order to be classified as direct materials?

- A. They must be classified as both prime costs and conversion costs.
- B. They must be introduced into the process in both work-in-process inventories and finished goods inventories.
- C. They must be an integral part of the finished product, but can be an insignificant portion of the total product cost.
- D. They must be an integral part of the finished product and be a significant portion of the total product cost.

89. Which of the following is an example of direct materials cost for an automobile manufacturer?

- A. Cost of oil lubricants for factory machinery
- B. Cost of wages of assembly worker
- C. Salary of production supervisor
- D. Cost of interior upholstery

90. If the cost of direct materials is a small portion of total production cost, it may be classified as part of:

- A. direct labor cost
- B. selling and administrative costs
- C. miscellaneous costs
- D. factory overhead cost

91. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished product is classified as:

- A. factory overhead cost
- B. direct labor cost
- C. miscellaneous costs
- D. direct materials cost

92. Which of the following is an example of direct labor cost for an airplane manufacturer?

- A. Cost of oil lubricants for factory machinery
- B. Cost of wages of assembly worker
- C. Salary of plant supervisor
- D. Cost of jet engines

93. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as:

- A. factory overhead cost
- B. miscellaneous expense
- C. product costs
- D. period cost

94. Which of the following is an example of a factory overhead cost?

- A. Repair and maintenance cost on the administrative building
- B. Factory heating and lighting cost
- C. Insurance premiums on salespersons' automobiles
- D. President's salary

95. Another term often used to refer to factory overhead is:

- A. surplus
- B. period cost
- C. supervisory cost
- D. factory burden

96. Which of the following costs are referred to as conversion costs?

- A. Direct labor cost and factory overhead cost
- B. Direct materials cost and direct labor cost
- C. Factory overhead cost
- D. Direct materials cost and factory overhead cost

97. What term is used to refer to the cost of changing direct materials into a finished manufactured product?

- A. Factory overhead cost
- B. Period cost
- C. Conversion cost
- D. Direct labor cost

98. Which of the following items would not be classified as part of factory overhead?

- A. Direct labor used
- B. Amortization of manufacturing patents
- C. Production supervisors' salaries
- D. Factory supplies used

99. Which of the following is considered a part of factory overhead cost?

- A. Sales commissions
- B. Depreciation of factory buildings
- C. Depreciation of office equipment
- D. Direct materials used

100. Which of the following manufacturing costs is an indirect cost of producing a product?

- A. Oil lubricants used for factory machinery
- B. Commissions for sales personnel
- C. Hourly wages of an assembly worker
- D. Memory chips for a microcomputer manufacturer

101. Prime costs are

- A. direct materials and factory overhead
- B. direct materials and direct labor
- C. direct labor and factory overhead
- D. period costs and factory overhead

102. Conversion costs are

- A. direct materials and direct labor
- B. direct materials and factory overhead
- C. factory overhead and direct labor
- D. direct materials and indirect labor

103. Which of the following is not a prime cost?

- A. Supervisor's wages
- B. Direct labor wages
- C. Machine operator wages
- D. Assembly line wages

104. The following are all product costs except:

- A. Direct materials
- B. Sales and administrative expenses
- C. Direct labor
- D. Factory overhead

105. Which one of the following will not be found on the balance sheet of a manufacturing company?
- A. cost of goods sold
 - B. materials
 - C. work in process
 - D. finished goods
106. In the income statement of a manufacturing company, what replaces purchases in the cost of goods section of a retail company?
- A. Finished goods
 - B. Cost of merchandise available
 - C. Cost of goods manufactured
 - D. Work in process completed
107. What is the purpose of the Statement of Cost of Goods Manufactured?
- A. to determine the ending materials inventory
 - B. to determine the ending work in process inventory
 - C. to determine the amounts transferred to finished goods
 - D. all of the answers are true

108.Which of the following accounts will be found on the income statement?

- A. inventory
- B. work in process
- C. finished goods
- D. cost of goods sold

109.All of the following are ways that managers use managerial information except

- A. to evaluate the company's stock performance
- B. to evaluate the performance of a company's operations
- C. to support long-term planning decisions
- D. to determine the cost of manufacturing a product

110.Cost of Materials Used	\$45,000
Direct Labor costs	\$48,000
Factory Overhead	\$39,000
Work in Process, beg.	\$28,000
Work in Process, end.	\$18,000

What is Cost of Goods Manufactured?

- A. \$178,000
- B. \$132,000
- C. \$122,000
- D. \$142,000

111. Cost of Materials Used	\$45,000
Direct Labor costs	\$48,000
Factory Overhead	\$39,000
Work in Process, beg.	\$28,000
Work in Process, end.	\$18,000
Finished Goods, beg.	\$28,000
Finished Goods, end.	\$18,000

What is Cost of Goods Sold?

- A. \$152,000
- B. \$142,000
- C. \$10,000
- D. \$128,000

112. Beginning Raw Materials Inventory	\$40,000
Materials purchased	\$65,000
Ending Raw Materials Inventory	\$30,000

What is the amount of Raw Materials Used?

- A. \$5,000
- B. \$65,000
- C. \$75,000
- D. \$30,000

113. A company manufactured 50,000 units of a product at a cost of \$450,000. They sold 40,000 units for \$15 each. What is the gross margin?

- A. \$750,000
- B. \$240,000
- C. \$600,000
- D. \$450,000

114.

Work in Process, Beginning	\$14,000
Work in Process, Ending	\$20,000
Direct Labor costs incurred	\$ 4,000
Cost of Goods Manufactured	\$ 8,000
Factory Overhead	\$ 8,000

What is the amount of Direct Materials used?

- A. \$2,000
- B. \$4,000
- C. \$8,000
- D. \$14,000

115. A company sells goods for \$150,000 that cost \$60,000 to manufacture. Which statement(s) are true?

- A. The company will recognize sales on the balance sheet of \$150,000.
- B. The company will recognize \$90,000 gross profit on the balance sheet.
- C. The company will decrease finished goods by \$60,000.
- D. All of these are true.

116.Product costs

- A. appear only on the balance sheet
- B. appear only on the income statement
- C. are expensed as costs are incurred for direct labor, direct material and factory overhead
- D. appear on both the income statement and balance sheet

117.Which of the following would be least likely to be considered a managerial accounting report?

- A. a report to analyze potential efficiencies and savings for the purchase of new production equipment.
- B. a schedule of total manufacturing costs incurred
- C. a statement of cost of goods manufactured
- D. a statement of stockholders' equity

118.Manual accountants would most likely prepare all of the following reports except:

- A. A performance report identifying amounts of scrap.
- B. A control report comparing direct material usage over time.
- C. A sales report targeting monthly sales and potential bonuses.
- D. An annual report for external regulators such as the SEC.

119.Accounting designed to meet the needs of decision-makers inside the business is referred to as:

- A. general accounting
- B. financial accounting
- C. managerial accounting
- D. external accounting

120.The primary goal of managerial accounting is to provide information to:

- A. investors
- B. creditors
- C. management
- D. external auditors

121.Goods that are partially completed by a manufacturer are referred to as:

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

122.A plant manager's salary may be referred to as:

- A. either a direct cost or an indirect cost since managerial accounting is not restricted by GAAP
- B. a direct cost
- C. an indirect cost
- D. a period cost

123.All of the following would probably be considered a direct material except:

- A. steel
- B. fabric
- C. glue
- D. lumber

124.Period costs include:

- A. current assets on the balance sheet
- B. current liabilities on the balance sheet
- C. operating costs that are shown on the income statement when products are sold
- D. operating costs that are shown on the income statement in the period in which they are incurred

125.A product cost is:

- A. expensed in the period in which it is incurred
- B. shown with current liabilities on the balance sheet
- C. shown on the income statement with the operating expenses
- D. expensed in the period the product is sold

126.Indirect labor and indirect materials are classified as:

- A. factory overhead and product costs
- B. factory overhead and period costs
- C. operating costs and period costs
- D. operating costs and product costs

127.An example of a period cost is:

- A. advertising expense
- B. indirect materials
- C. depreciation on factory equipment
- D. property taxes on plant facilities

128. Direct labor and direct materials are classified as:

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

129. Indirect costs incurred in a manufacturing environment that cannot be traced directly to a product are treated as:

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

130. Rent expense on a factory building would be treated as a(n):

- A. period cost
- B. product cost
- C. direct cost
- D. both A and C are correct

131. Rent expense incurred on a factory building would be treated as a(n):

- A. indirect cost
- B. period cost
- C. product cost
- D. both A and C are correct

132. Which of the following is not a factory overhead cost?

- A. materials used directly in the manufacturing process of the product
- B. insurance on factory equipment
- C. salaries of production supervisors
- D. property tax on factory building

133. All of the following are examples of indirect labor except:

- A. maintenance personnel
- B. janitorial personnel
- C. machine operators
- D. plant managers

134.Factory overhead includes:

- A. factory rent and direct labor
- B. direct materials and direct labor
- C. indirect materials and direct materials
- D. indirect labor and indirect materials

135.Williams Company reports production costs for 2015 as follows:

Direct materials used	\$345,000
Direct labor incurred	250,000
Factory overhead incurred	400,000
Operating expenses	175,000

Williams Company's period costs for 2015 amount to:

- A. \$345,000
- B. \$250,000
- C. \$400,000
- D. \$175,000

136. Williams Company reports production costs for 2015 as follows:

Direct materials used	\$345,000
Direct labor incurred	250,000
Factory overhead incurred	400,000
Operating expenses	175,000

Williams Company's product costs for 2015 amount to:

- A. \$995,000
- B. \$920,000
- C. \$825,000
- D. \$770,000

137. Costs which are reported on the income statement as part of cost of goods sold are referred to as:

- A. administrative expenses
- B. period costs
- C. cost of goods manufactured
- D. operating expenses

138. Costs on the income statement for both a merchandiser and a manufacturer would include:

- A. operating expenses
- B. direct materials
- C. direct labor incurred
- D. cost of goods manufactured

139. Cost of goods sold for a manufacturer equals cost of goods manufactured plus:

- A. beginning work in process inventory less ending work in process inventory
- B. ending work in process inventory less beginning work in process inventory
- C. beginning finished goods inventory less ending finished goods inventory
- D. ending finished goods inventory less beginning finished goods inventory

140. Cost of goods manufactured is equal to:

- A. total manufacturing costs plus ending materials inventory less beginning materials inventory
- B. cost of goods sold plus beginning work in process inventory less ending work in process inventory
- C. total manufacturing costs plus ending work in process inventory less beginning work in process inventory
- D. total manufacturing costs plus beginning work in process inventory less ending work in process inventory

141. Finished goods inventory is reported on the:

- A. income statement as a period cost
- B. balance sheet as a long-term asset
- C. balance sheet as a current asset
- D. income statement as revenue

142.Beginning work in process is equal to:

- A. cost of goods manufactured plus ending work in process minus manufacturing costs incurred during the current period
- B. cost of goods manufactured minus ending work in process plus manufacturing costs incurred during the current period
- C. ending work in process plus manufacturing costs incurred during the current period
- D. manufacturing costs incurred during the current period minus ending work in process

143.All of the following would be reported on the balance sheet as a current asset except:

- A. factory overhead
- B. materials inventory
- C. finished goods inventory
- D. work in process inventory

144. Reedy Company reports the following information for 2012:

Cost of goods manufactured	\$68,250
Direct materials used	27,000
Direct labor incurred	25,000
Work in process inventory, January 1, 2012	11,000

Factory overhead is 75% of the cost of direct labor. Work in process inventory on December 31, 2012, is:

- A. \$16,250
- B. \$8,500
- C. \$18,750
- D. \$13,500

145. At the beginning of 2011, the Gilbert Company's work in process inventory account had a balance of \$30,000. During 2011, \$68,000 of direct materials were used in production, and \$66,000 of direct labor costs were incurred. Factory overhead in 2011 amounted to \$90,000. Cost of goods manufactured is \$230,000 in 2011. The balance in work in process inventory on December 31, 2011, is:

- A. \$24,000
- B. \$44,000
- C. \$66,000
- D. \$36,000

146. A company used \$35,000 of direct materials, incurred \$73,000 in direct labor cost, and \$114,000 in factory overhead costs during the period. If beginning and ending work in process inventories were \$28,000 and \$32,000 respectively, the cost of goods manufactured was:

- A. \$218,000
- B. \$226,000
- C. \$190,000
- D. \$222,000

147. Cost of goods manufactured during 2011 is \$240, work in process inventory on December 31, 2011, is \$50. Work in process inventory during 2011 decreased by 60%. Total manufacturing costs incurred during 2011 amount to:

- A. \$190
- B. \$165
- C. \$290
- D. \$315

148. Work in process inventory on December 31, 2011, is \$44,000. Work in process inventory increased by 60% during 2011. Cost of goods manufactured for 2011 amounts to \$275,000. What are the total manufacturing costs incurred in 2011?

- A. \$291,500
- B. \$302,000
- C. \$275,750
- D. \$233,750

149. Work in process inventory on December 31, 2011, is \$42,000. Work in process inventory decreased by 40% during 2011. Total manufacturing costs incurred in 2011 amount to \$260,000. What is cost of goods manufactured?

- A. \$232,000
- B. \$302,000
- C. \$288,000
- D. \$190,000

150. Work in process inventory increased by \$20,000 during 2011. Cost of goods manufactured was \$180,000. Total manufacturing costs incurred in 2011 are:

- A. \$198,000
- B. \$160,000
- C. \$189,000
- D. \$200,000

151. The cost of goods sold for Heedy manufacturing in 2011 was \$233,000. The January 1, 2011, finished goods inventory balance was \$31,600, and the December 31, 2011, finished goods inventory balance was \$24,200. Cost of goods manufactured during the period was:

- A. \$233,000
- B. \$225,600
- C. \$288,800
- D. \$240,400

152. The Sharpe Company reports the following information for 2015:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Determine product costs for 2015.

- A. \$24,500
- B. \$30,300
- C. \$29,200
- D. \$35,000

153. The Sharpe Company reports the following information for 2015:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Determine period costs for 2015.

- A. \$24,500
- B. \$30,300
- C. \$29,200
- D. \$35,000

154. The aspects of the management process are listed below. Match each phase to the appropriate description.

- _____ Planning
- _____ Directing
- _____ Controlling
- _____ Improving
- _____ Decision making

- a) Used by managers for continuous improvement
- b) Managers must decide how to respond to unfavorable performances
- c) Used by management to develop the organization's objectives and goals
- d) Monitoring the operating results of implemented plans and comparing actual results
- e) Managers run their day to day activities

155. Identify the following costs as (a) direct materials, (b) direct labor, or (c) factory overhead for a cake manufacturer.

1. _____ Frosting
2. _____ Depreciation on oven
3. _____ Wages of bakers
4. _____ Sprinkles for topping

156. Identify the following costs as (a) prime cost, (b) conversion cost, (c) or both for a cake factory.

1. _____ Frosting
2. _____ Wages of the baker
3. _____ Sprinkles for the topping (considered an indirect material)
4. _____ Depreciation on oven

157. Identify the following costs as a (a) product cost or (b) period cost for a cake factory.

1. _____ Frosting
2. _____ Baker's wages
3. _____ Advertising fees
4. _____ Transportation out

158. The Zoe Corporation has the following information for the month March. Determine the (a) cost of goods manufactured, and (b) cost of goods sold.

Cost of materials placed in production	\$69,000
Direct labor	27,000
Factory overhead	34,000
Work in process, March 1	15,000
Work in process, March 31	19,500
Finished goods inventory, March 1	25,000
Finished goods inventory, March 31	23,000

159. Sienna Company has the following information for January.

Cost of materials placed in production	\$20,000
Direct labor	15,000
Factory overhead	24,000
Work in process inventory, January 1	2,900
Work in process inventory, January 31	3,500

Show your calculations to find the cost of goods manufactured.

160. Magnus Industries has the following data:

Beginning Raw Materials Inventory	\$75,000
Materials purchased	\$40,000
Ending Raw Materials Inventory	\$60,000

Show how you would calculate Raw Materials Used.

161. Watson Company has the following data:

Work in Process, Beginning	\$18,000
Work in Process, Ending	\$25,000
Direct Labor costs incurred	\$5,000
Cost of Goods Manufactured	\$9,000
Factory Overhead	\$7,000

Show how you would calculate the amount of Direct Materials Used.

162.Laramie Technologies had the following data:

Cost of Materials Used	\$50,000
Direct Labor costs	\$56,000
Factory Overhead	\$28,000
Work in Process, beg.	\$45,000
Work in Process, end.	\$32,000

Show your calculations to determine the Cost of Goods Manufactured.

163. Keeton Company had the following data:

Cost of Materials Used	\$60,000
Direct Labor costs	\$58,000
Factory Overhead	\$33,000
Work in Process, beg.	\$29,000
Work in Process, end.	\$18,000
Finished Goods, beg.	\$32,000
Finished Goods, end.	\$18,000

Show your calculations to determine the Cost of Goods Sold.

164. The Zoe Corporation has the following information for the month of March. Prepare a (a) schedule of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) prepare only the inventory section of the balance sheet.

Purchases	\$92,000
Materials inventory, March 1	6,000
Materials inventory, March 31	8,000
Direct labor	25,000
Factory overhead	37,000
Work in process, March 1	22,000
Work in process, March 31	23,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	30,000
Sales	257,000
Sales and administrative expenses	79,000

165. The following data (in thousands of dollars) have been taken from the accounting records of Rayburn Corporation for the current year.

Sales	\$1,980
Selling expenses	280
Manufacturing overhead	460
Direct labor	400
Administrative expenses	300
Purchases of raw materials	240
Finished goods inventory, beginning	240
Finished goods inventory, ending	320
Raw materials inventory, beginning	80
Raw materials inventory, ending	140
Work in process inventory, beginning	140
Work in process inventory, ending	100

Required: (Present all reports and calculations in thousands of dollars)

- (a) What was the cost of the raw materials used in production during the year?
- (b) What was the cost of goods manufactured (finished) for the year?
- (c) What was the cost of goods sold for the year?
- (d) What was the net income for the year?

166. Differentiate between:

- a) direct materials versus indirect materials
- b) direct labor versus indirect labor

167. Classify the following costs as direct, indirect, or neither:

a)	_____	indirect labor incurred
b)	_____	factory equipment depreciation
c)	_____	indirect materials used
d)	_____	office equipment depreciation
e)	_____	direct materials used
f)	_____	insurance expired on administrative facilities
g)	_____	direct labor incurred
h)	_____	administrative office salaries
i)	_____	salespersons' salaries
j)	_____	utilities on factory building
k)	_____	utilities on administrative facilities

168. Use the correct number to designate each item below:

- 1) direct materials
- 2) selling and administrative expense
- 3) factory overhead
- 4) direct labor

a)	_____	rent expense on factory building
b)	_____	sales supplies used
c)	_____	factory supplies used
d)	_____	indirect materials used
e)	_____	wages of assembly line personnel
f)	_____	cost of primary material used to make product
g)	_____	depreciation on office equipment
h)	_____	rent on office facilities
i)	_____	insurance expired on factory equipment
j)	_____	utilities incurred in the office
k)	_____	advertising expense

169. The Sharpe Company reports the following information for 2012:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Compute:

a) product costs

b) period costs

170. Allen Company used \$71,000 of direct materials and incurred \$37,000 of direct labor costs during 2011. Indirect labor amounted to \$2,700 while indirect materials used totaled \$1,600. Other operating costs pertaining to the factory included utilities of \$3,100; maintenance of \$4,500; supplies of \$1,800; depreciation of \$7,900; and property taxes of \$2,600. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$5,500 balance and ended the year with a \$7,500 balance.

Prepare a statement of cost of goods manufactured.

171. The following information is available for Carter Corporation for 2012:

- 1) Materials inventory decreased \$4,000 during 2012.
- 2) Materials inventory on December 31, 2012, was 50% of materials inventory on January 1, 2012.
- 3) Beginning work in process inventory was \$145,000.
- 4) Ending finished goods inventory was \$65,000.
- 5) Purchases of direct materials were \$154,700.
- 6) Direct materials used were 2.5 times the cost of direct labor.
- 7) Total manufacturing costs incurred were \$246,400, 80% of cost of goods manufactured and \$156,000 less than cost of goods sold.

Compute:

- a) finished goods inventory on January 1, 2012
- b) work in process inventory on December 31, 2012
- c) direct labor incurred
- d) factory overhead incurred
- e) direct materials used
- f) materials inventory on January 1, 2012
- g) materials inventory on December 31, 2012

Note to students: The answers are not necessarily calculated in alphabetical order.

172. Rosalba Manufacturing Company had the following account balance for 2012:

	January 1	December 31
Accounts receivable	\$27,000	\$33,000
Materials inventory	22,500	6,000
Work in process inventory	70,200	48,000
Finished goods inventory	3,000	15,000

Collections on account were \$625,000 in 2012.

Cost of goods sold was 68% of sales.

Direct materials purchased amounted to \$90,000.

Factory overhead was 300% of the cost of direct labor.

Compute:

- a) sales revenue (all sales were on account)
- b) cost of goods sold
- c) cost of goods manufactured
- d) direct labor incurred
- e) direct materials used
- f) factory overhead incurred

173. Sineath Industries had a fire and some of its accounting records were destroyed. Available information is presented below for the year ended December 31, 2011.

Materials inventory, December 31, 2011	\$15,000
Direct materials purchased	28,000
Direct materials used	22,900
Cost of goods manufactured	135,000

Additional information is as follows:

Factory overhead is 150% of direct labor cost.

Finished goods inventory decreased by \$18,000 during the year.

Work in process inventory increased by \$12,000 during the year.

Calculate:

- a) materials inventory, January 1, 2011
- b) direct labor cost
- c) factory overhead incurred
- d) cost of goods sold

174. Classify the following costs as either a product cost or a period cost:

a)	_____	direct materials used
b)	_____	factory utilities
c)	_____	salespersons' commissions
d)	_____	salary of plant manager
e)	_____	indirect materials used
f)	_____	depreciation on store equipment
g)	_____	indirect labor incurred
h)	_____	advertising expense
i)	_____	direct labor incurred
j)	_____	factory machinery repairs and maintenance
k)	_____	depreciation on factory machinery
l)	_____	plant insurance expired

175. Differentiate between financial and managerial accounting, addressing such issues as what reports are generated, when, and for whom.

Chapter 1--Managerial Accounting Concepts and Principles

2 copy **Key**

1. Accounting is an information system that provides essential data about the economic activities of an entity to various users to aid them in making informed judgments and decisions.

TRUE

2. Managerial accounting reports are prepared according to generally accepted accounting principles.

FALSE

3. Managerial accounting information includes both historical and estimated data.

TRUE

4. Since there are few rules to restrict how an organization chooses to arrange its own internal data for decision making, managerial accounting provides ample opportunity for creativity and change.

TRUE

5. A diagram of the operating structure of an organization is called an organization chart.

TRUE

6. In most business organizations, the chief accountant is called the treasurer.

FALSE

7. In most business organizations, the chief accountant is called the controller.

TRUE

8. A staff department or unit is one that provides services, assistance, and advice to the departments with line or other staff responsibilities.

TRUE

9. The vice presidents of production and sales and the controller hold line positions in most large organizations.

FALSE

10. A staff department has no direct authority over a line department.

TRUE

11. The controller's staff consists of management accountants responsible for systems and procedures, general accounting, budgets, taxes, and cost accounting.

TRUE

12. Managerial accounting reports must be useful to the user of the information.

TRUE

13. Planning is the process of monitoring operating results and comparing actual results with the expected results.

FALSE

14. Planning is the process of developing the company's objectives or goals and translating these objectives into courses of action.

TRUE

15. Control is the process of monitoring operating results and comparing actual results with the expected results.

TRUE

16. Managerial accounting provides useful information to managers on product costs.

TRUE

17. The payment of dividends is an example of a cost.

FALSE

18. A cost can be a payment of cash for the purpose of generating revenues.

TRUE

19. The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and factory overhead cost.

TRUE

20. The cost of materials entering directly into the manufacturing process is classified as factory overhead cost.

FALSE

21. The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.

TRUE

22. If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.

FALSE

23. For a construction contractor, the wages of carpenters would be classified as factory overhead cost.

FALSE

24. For an automotive repair shop, the wages of mechanics would be classified as direct labor cost.

TRUE

25. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as factory overhead cost.

TRUE

26. Depreciation on factory plant and equipment is an example of factory overhead cost.

TRUE

27. Cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.

FALSE

28. If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part of factory overhead cost.

TRUE

29. Factory overhead cost is sometimes referred to as factory burden.

TRUE

30. Conversion cost is the combination of direct labor cost and factory overhead cost.

TRUE

31. Conversion cost is the combination of direct materials cost and factory overhead cost.

FALSE

32. Factory overhead is an example of a product cost.

TRUE

33. Direct labor costs are included in the conversion costs of a product.

TRUE

34. The costs of materials and labor that do not enter directly into the finished product are classified as factory overhead.

TRUE

35. The costs of materials and labor that do not enter directly into the finished product are classified as cost of goods sold.

FALSE

36. Indirect labor would be included in factory overhead.

TRUE

37. A cost object indicates how costs are related or identified.

TRUE

38. Direct costs can be specifically traced to a cost object.

TRUE

39. Indirect costs can be specifically identified to a cost object.

FALSE

40. Nonmanufacturing costs are classified into two categories: selling and administrative.

TRUE

41. Prime costs are the combination of direct labor costs and factory overhead costs.

FALSE

42. Prime costs are the combination of direct materials and direct labor costs.

TRUE

43. Conversion costs are the combination of direct labor, direct material and factory overhead costs.

FALSE

44. Product costs are also referred to as inventoriable costs.

TRUE

45. Period costs include direct materials and direct labor.

FALSE

46. Period costs can be found in the balance sheet.

FALSE

47. On the balance sheet for a manufacturing business, the cost of direct materials, direct labor, and factory overhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.

TRUE

48. Only the value of the inventory that is sold will appear in the income statement.

TRUE

49. The statement of cost of goods manufactured is an extension of the income statement for a manufacturing company.

TRUE

50. Managers use managerial information to evaluate performance of a company's operation.

TRUE

51. Managerial information is for external as well as internal stakeholders.

FALSE

52. A report analyzing how many products need to be sold to cover operating costs is not typically a managerial accounting report.

FALSE

53. A report analyzing the dollar savings of purchasing new equipment to speed up the production process is a managerial accounting report.

TRUE

54. A performance report that identifies the amount of employee downtime is a financial accounting report.

FALSE

55. Controlling deals with choosing goals and deciding how to achieve them.

FALSE

56. Goods that are partway through the manufacturing process, but not yet complete, are referred to as materials inventory.

FALSE

57. Manufacturers use labor, plant, and equipment to convert direct materials into finished products.

TRUE

58. Product costs are not expensed until the product is sold.

TRUE

59. The plant manager's salary in a manufacturing business would be considered an indirect cost.

TRUE

60. Operating expenses are product costs and are expensed when the product is sold.

FALSE

61. Period costs are operating costs that are expensed in the period in which the goods are sold.

FALSE

62. Factory overhead includes all manufacturing costs except direct materials and direct labor.

TRUE

63. Labor costs that are directly traceable to the product are part of factory overhead.

FALSE

64. Product costs include direct labor and advertising expense.

FALSE

65. Indirect labor and indirect materials would be part of factory overhead.

TRUE

66. Prime costs consist of factory overhead and direct labor.

FALSE

67. Conversion costs consist of product costs and period costs.

FALSE

68. Prime costs consists of direct materials, indirect materials, and direct labor.

FALSE

69. Managerial accounting uses only past data in reports to aid management in the decision making process.

FALSE

70. In order to be useful to managers, management accounting reports should possess all of the following characteristics EXCEPT:

A. provide objective measures of past operations and subjective estimates about future decisions

B. be prepared in accordance with generally accepted accounting principles

C. be provided at any time management needs information

D. be prepared to report information for any unit of the business to support decision making

71. What is the primary criterion for the preparation of managerial accounting reports?
- A. Relevance of the reports
 - B. Meet the manager needs
 - C. Timing of the reports
 - D. Cost of the reports
72. Which of the following is most associated with managerial accounting?
- A. Must follow GAAP
 - B. May rely on estimates and forecasts
 - C. Is prepared for users outside the organization.
 - D. Always reports on the entire entity
73. Which of the following is most associated with financial accounting?
- A. Can have both objective and subjective information
 - B. Can be prepared periodically, or as needed
 - C. Prepared in accordance with GAAP
 - D. Can be prepared for the entity or segment

74. Which of the following statements is false?
- A. There is no overlap between financial and managerial accounting.
 - B. Managerial accounting sometimes relies on past information.
 - C. Managerial accounting does not need to conform to GAAP
 - D. Financial accounting must conform to GAAP.
75. In most business organizations, the chief management accountant is called the:
- A. chief accounting officer
 - B. controller
 - C. chairman of the board
 - D. chief executive officer
76. All of the following employees hold line positions in Anthea Electric EXCEPT:
- A. vice president of production
 - B. vice president of finance
 - C. manager of the Valhalla Plant
 - D. vice president of sales

77. The controller's staff often consists of several management accountants. All of the following would most likely be on the controller's staff EXCEPT:
- A. general accountants
 - B. budgets and budget analysts
 - C. investments and shareholder relations managers
 - D. cost accountants
78. Managerial accounting
- A. is prepared according to GAAP.
 - B. is prepared according to management needs.
 - C. is prepared periodically only.
 - D. is related to the entire business entity only.
79. Who are the individuals charged with the responsibility for directing the day-to-day operations of a business?
- A. Investors
 - B. Managers
 - C. Shareholders
 - D. Customers

80. Which of the following are basic phases of the management process?

- A. Supervising and directing
- B. Decision making and supervising
- C. Organizing and directing
- D. Planning and controlling

81. What term is used to describe the process of monitoring operating results and comparing actual results with the expected results?

- A. Improving
- B. Controlling
- C. Directing
- D. Planning

82. What term is used to describe the process of developing the organization's objectives and translating those into courses of action?

- A. Supervising
- B. Planning
- C. Improving
- D. Decision making

83. Which of the following is the principle reason for preparing managerial accounting reports?
- A. Usefulness to management
 - B. Cost of preparation
 - C. Clarity
 - D. GAAP
84. Which of the following is not a characteristic of useful managerial accounting reports?
- A. Accuracy
 - B. GAAP
 - C. historical and estimated data
 - D. reports prepared as needed
85. Compute conversion costs given the following data: Direct Materials, \$347,500; Direct Labor, \$186,300; Factory Overhead, \$187,900; and Selling Expenses, \$45,290.
- A. \$533,800
 - B. \$187,900
 - C. \$721,700
 - D. \$374,200

86. Which of the following is false in regards to direct materials for an auto manufacturer?
- A. Steel would probably be a direct material.
 - B. Upholstery fabric would probably be a direct material
 - C. Oil to lubricate factory machines would not be a direct material.
 - D. Small plastic clips to hold on door panels, that become part of the auto, must be accounted for as direct materials.
87. The cost of a manufactured product generally consists of which of the following costs?
- A. Direct materials cost and factory overhead cost
 - B. Direct labor cost and factory overhead cost
 - C. Direct labor cost, direct materials cost, and factory overhead cost
 - D. Direct materials cost and direct labor cost
88. Materials must have which two qualities in order to be classified as direct materials?
- A. They must be classified as both prime costs and conversion costs.
 - B. They must be introduced into the process in both work-in-process inventories and finished goods inventories.
 - C. They must be an integral part of the finished product, but can be an insignificant portion of the total product cost.
 - D. They must be an integral part of the finished product and be a significant portion of the total product cost.

89. Which of the following is an example of direct materials cost for an automobile manufacturer?
- A. Cost of oil lubricants for factory machinery
 - B. Cost of wages of assembly worker
 - C. Salary of production supervisor
 - D. Cost of interior upholstery
90. If the cost of direct materials is a small portion of total production cost, it may be classified as part of:
- A. direct labor cost
 - B. selling and administrative costs
 - C. miscellaneous costs
 - D. factory overhead cost
91. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished product is classified as:
- A. factory overhead cost
 - B. direct labor cost
 - C. miscellaneous costs
 - D. direct materials cost

92. Which of the following is an example of direct labor cost for an airplane manufacturer?
- A. Cost of oil lubricants for factory machinery
 - B. Cost of wages of assembly worker
 - C. Salary of plant supervisor
 - D. Cost of jet engines
93. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as:
- A. factory overhead cost
 - B. miscellaneous expense
 - C. product costs
 - D. period cost
94. Which of the following is an example of a factory overhead cost?
- A. Repair and maintenance cost on the administrative building
 - B. Factory heating and lighting cost
 - C. Insurance premiums on salespersons' automobiles
 - D. President's salary

95. Another term often used to refer to factory overhead is:
- A. surplus
 - B. period cost
 - C. supervisory cost
 - D. factory burden
96. Which of the following costs are referred to as conversion costs?
- A. Direct labor cost and factory overhead cost
 - B. Direct materials cost and direct labor cost
 - C. Factory overhead cost
 - D. Direct materials cost and factory overhead cost
97. What term is used to refer to the cost of changing direct materials into a finished manufactured product?
- A. Factory overhead cost
 - B. Period cost
 - C. Conversion cost
 - D. Direct labor cost

98. Which of the following items would not be classified as part of factory overhead?
- A. Direct labor used
 - B. Amortization of manufacturing patents
 - C. Production supervisors' salaries
 - D. Factory supplies used
99. Which of the following is considered a part of factory overhead cost?
- A. Sales commissions
 - B. Depreciation of factory buildings
 - C. Depreciation of office equipment
 - D. Direct materials used
100. Which of the following manufacturing costs is an indirect cost of producing a product?
- A. Oil lubricants used for factory machinery
 - B. Commissions for sales personnel
 - C. Hourly wages of an assembly worker
 - D. Memory chips for a microcomputer manufacturer

101. Prime costs are

- A. direct materials and factory overhead
- B. direct materials and direct labor
- C. direct labor and factory overhead
- D. period costs and factory overhead

102. Conversion costs are

- A. direct materials and direct labor
- B. direct materials and factory overhead
- C. factory overhead and direct labor
- D. direct materials and indirect labor

103. Which of the following is not a prime cost?

- A. Supervisor's wages
- B. Direct labor wages
- C. Machine operator wages
- D. Assembly line wages

104. The following are all product costs except:

- A. Direct materials
- B. Sales and administrative expenses
- C. Direct labor
- D. Factory overhead

105. Which one of the following will not be found on the balance sheet of a manufacturing company?

- A. cost of goods sold
- B. materials
- C. work in process
- D. finished goods

106. In the income statement of a manufacturing company, what replaces purchases in the cost of goods section of a retail company?

- A. Finished goods
- B. Cost of merchandise available
- C. Cost of goods manufactured
- D. Work in process completed

107. What is the purpose of the Statement of Cost of Goods Manufactured?

- A. to determine the ending materials inventory
- B. to determine the ending work in process inventory
- C. to determine the amounts transferred to finished goods
- D. all of the answers are true

108. Which of the following accounts will be found on the income statement?

- A. inventory
- B. work in process
- C. finished goods
- D. cost of goods sold

109. All of the following are ways that managers use managerial information except

- A. to evaluate the company's stock performance
- B. to evaluate the performance of a company's operations
- C. to support long-term planning decisions
- D. to determine the cost of manufacturing a product

110.	Cost of Materials Used	\$45,000
	Direct Labor costs	\$48,000
	Factory Overhead	\$39,000
	Work in Process, beg.	\$28,000
	Work in Process, end.	\$18,000

What is Cost of Goods Manufactured?

- A. \$178,000
- B. \$132,000
- C. \$122,000
- D. \$142,000

111.	Cost of Materials Used	\$45,000
	Direct Labor costs	\$48,000
	Factory Overhead	\$39,000
	Work in Process, beg.	\$28,000
	Work in Process, end.	\$18,000
	Finished Goods, beg.	\$28,000
	Finished Goods, end.	\$18,000

What is Cost of Goods Sold?

- A. \$152,000
- B. \$142,000
- C. \$10,000
- D. \$128,000

112.

Beginning Raw Materials Inventory	\$40,000
Materials purchased	\$65,000
Ending Raw Materials Inventory	\$30,000

What is the amount of Raw Materials Used?

A. \$5,000

B. \$65,000

C. \$75,000

D. \$30,000

113. A company manufactured 50,000 units of a product at a cost of \$450,000. They sold 40,000 units for \$15 each. What is the gross margin?

A. \$750,000

B. \$240,000

C. \$600,000

D. \$450,000

114.	Work in Process, Beginning	\$14,000
	Work in Process, Ending	\$20,000
	Direct Labor costs incurred	\$ 4,000
	Cost of Goods Manufactured	\$ 8,000
	Factory Overhead	\$ 8,000

What is the amount of Direct Materials used?

- A. \$2,000
 - B. \$4,000
 - C. \$8,000
 - D. \$14,000
115. A company sells goods for \$150,000 that cost \$60,000 to manufacture. Which statement(s) are true?
- A. The company will recognize sales on the balance sheet of \$150,000.
 - B. The company will recognize \$90,000 gross profit on the balance sheet.
 - C. The company will decrease finished goods by \$60,000.
 - D. All of these are true.
116. Product costs
- A. appear only on the balance sheet
 - B. appear only on the income statement
 - C. are expensed as costs are incurred for direct labor, direct material and factory overhead
 - D. appear on both the income statement and balance sheet

117. Which of the following would be least likely to be considered a managerial accounting report?
- A. a report to analyze potential efficiencies and savings for the purchase of new production equipment.
 - B. a schedule of total manufacturing costs incurred
 - C. a statement of cost of goods manufactured
 - D. a statement of stockholders' equity
118. Managerial accountants would most likely prepare all of the following reports except:
- A. A performance report identifying amounts of scrap.
 - B. A control report comparing direct material usage over time.
 - C. A sales report targeting monthly sales and potential bonuses.
 - D. An annual report for external regulators such as the SEC.
119. Accounting designed to meet the needs of decision-makers inside the business is referred to as:
- A. general accounting
 - B. financial accounting
 - C. managerial accounting
 - D. external accounting

120. The primary goal of managerial accounting is to provide information to:

- A. investors
- B. creditors
- C. management
- D. external auditors

121. Goods that are partially completed by a manufacturer are referred to as:

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

122. A plant manager's salary may be referred to as:

- A. either a direct cost or an indirect cost since managerial accounting is not restricted by GAAP
- B. a direct cost
- C. an indirect cost
- D. a period cost

123. All of the following would probably be considered a direct material except:

- A. steel
- B. fabric
- C. glue
- D. lumber

124. Period costs include:

- A. current assets on the balance sheet
- B. current liabilities on the balance sheet
- C. operating costs that are shown on the income statement when products are sold
- D. operating costs that are shown on the income statement in the period in which they are incurred

125. A product cost is:

- A. expensed in the period in which it is incurred
- B. shown with current liabilities on the balance sheet
- C. shown on the income statement with the operating expenses
- D. expensed in the period the product is sold

126. Indirect labor and indirect materials are classified as:

- A. factory overhead and product costs
- B. factory overhead and period costs
- C. operating costs and period costs
- D. operating costs and product costs

127. An example of a period cost is:

- A. advertising expense
- B. indirect materials
- C. depreciation on factory equipment
- D. property taxes on plant facilities

128. Direct labor and direct materials are classified as:

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

129. Indirect costs incurred in a manufacturing environment that cannot be traced directly to a product are treated as:

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

130. Rent expense on a factory building would be treated as a(n):

- A. period cost
- B. product cost
- C. direct cost
- D. both A and C are correct

131. Rent expense incurred on a factory building would be treated as a(n):

- A. indirect cost
- B. period cost
- C. product cost
- D. both A and C are correct

132. Which of the following is not a factory overhead cost?

- A. materials used directly in the manufacturing process of the product
- B. insurance on factory equipment
- C. salaries of production supervisors
- D. property tax on factory building

133. All of the following are examples of indirect labor except:

- A. maintenance personnel
- B. janitorial personnel
- C. machine operators
- D. plant managers

134. Factory overhead includes:

- A. factory rent and direct labor
- B. direct materials and direct labor
- C. indirect materials and direct materials
- D. indirect labor and indirect materials

135. Williams Company reports production costs for 2015 as follows:

Direct materials used	\$345,000
Direct labor incurred	250,000
Factory overhead incurred	400,000
Operating expenses	175,000

Williams Company's period costs for 2015 amount to:

- A. \$345,000
- B. \$250,000
- C. \$400,000
- D. \$175,000

136. Williams Company reports production costs for 2015 as follows:

Direct materials used	\$345,000
Direct labor incurred	250,000
Factory overhead incurred	400,000
Operating expenses	175,000

Williams Company's product costs for 2015 amount to:

- A. \$995,000
- B. \$920,000
- C. \$825,000
- D. \$770,000

137. Costs which are reported on the income statement as part of cost of goods sold are referred to as:
- A. administrative expenses
 - B. period costs
 - C. cost of goods manufactured
 - D. operating expenses
138. Costs on the income statement for both a merchandiser and a manufacturer would include:
- A. operating expenses
 - B. direct materials
 - C. direct labor incurred
 - D. cost of goods manufactured
139. Cost of goods sold for a manufacturer equals cost of goods manufactured plus:
- A. beginning work in process inventory less ending work in process inventory
 - B. ending work in process inventory less beginning work in process inventory
 - C. beginning finished goods inventory less ending finished goods inventory
 - D. ending finished goods inventory less beginning finished goods inventory

140. Cost of goods manufactured is equal to:

- A. total manufacturing costs plus ending materials inventory less beginning materials inventory
- B. cost of goods sold plus beginning work in process inventory less ending work in process inventory
- C. total manufacturing costs plus ending work in process inventory less beginning work in process inventory
- D. total manufacturing costs plus beginning work in process inventory less ending work in process inventory

141. Finished goods inventory is reported on the:

- A. income statement as a period cost
- B. balance sheet as a long-term asset
- C. balance sheet as a current asset
- D. income statement as revenue

142. Beginning work in process is equal to:

- A. cost of goods manufactured plus ending work in process minus manufacturing costs incurred during the current period
- B. cost of goods manufactured minus ending work in process plus manufacturing costs incurred during the current period
- C. ending work in process plus manufacturing costs incurred during the current period
- D. manufacturing costs incurred during the current period minus ending work in process

143. All of the following would be reported on the balance sheet as a current asset except:

- A. factory overhead
- B. materials inventory
- C. finished goods inventory
- D. work in process inventory

144. Reedy Company reports the following information for 2012:

Cost of goods manufactured	\$68,250
Direct materials used	27,000
Direct labor incurred	25,000
Work in process inventory, January 1, 2012	11,000

Factory overhead is 75% of the cost of direct labor. Work in process inventory on December 31, 2012, is:

- A. \$16,250
- B. \$8,500
- C. \$18,750
- D. \$13,500

145. At the beginning of 2011, the Gilbert Company's work in process inventory account had a balance of \$30,000. During 2011, \$68,000 of direct materials were used in production, and \$66,000 of direct labor costs were incurred. Factory overhead in 2011 amounted to \$90,000. Cost of goods manufactured is \$230,000 in 2011. The balance in work in process inventory on December 31, 2011, is:

A. \$24,000

B. \$44,000

C. \$66,000

D. \$36,000

146. A company used \$35,000 of direct materials, incurred \$73,000 in direct labor cost, and \$114,000 in factory overhead costs during the period. If beginning and ending work in process inventories were \$28,000 and \$32,000 respectively, the cost of goods manufactured was:

A. \$218,000

B. \$226,000

C. \$190,000

D. \$222,000

147. Cost of goods manufactured during 2011 is \$240, work in process inventory on December 31, 2011, is \$50. Work in process inventory during 2011 decreased by 60%. Total manufacturing costs incurred during 2011 amount to:

A. \$190

B. \$165

C. \$290

D. \$315

148. Work in process inventory on December 31, 2011, is \$44,000. Work in process inventory increased by 60% during 2011. Cost of goods manufactured for 2011 amounts to \$275,000. What are the total manufacturing costs incurred in 2011?

A. \$291,500

B. \$302,000

C. \$275,750

D. \$233,750

149. Work in process inventory on December 31, 2011, is \$42,000. Work in process inventory decreased by 40% during 2011. Total manufacturing costs incurred in 2011 amount to \$260,000. What is cost of goods manufactured?

A. \$232,000

B. \$302,000

C. \$288,000

D. \$190,000

150. Work in process inventory increased by \$20,000 during 2011. Cost of goods manufactured was \$180,000. Total manufacturing costs incurred in 2011 are:
- A. \$198,000
 - B. \$160,000
 - C. \$189,000
 - D. \$200,000
151. The cost of goods sold for Heedy manufacturing in 2011 was \$233,000. The January 1, 2011, finished goods inventory balance was \$31,600, and the December 31, 2011, finished goods inventory balance was \$24,200. Cost of goods manufactured during the period was:
- A. \$233,000
 - B. \$225,600
 - C. \$288,800
 - D. \$240,400

152. The Sharpe Company reports the following information for 2015:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Determine product costs for 2015.

- A. \$24,500
- B. \$30,300
- C. \$29,200
- D. \$35,000

153. The Sharpe Company reports the following information for 2015:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Determine period costs for 2015.

- A. \$24,500
- B. \$30,300
- C. \$29,200
- D. \$35,000

154. The aspects of the management process are listed below. Match each phase to the appropriate description.

_____ Planning

_____ Directing

_____ Controlling

_____ Improving

_____ Decision making

a) Used by managers for continuous improvement

b) Managers must decide how to respond to unfavorable performances

c) Used by management to develop the organization's objectives and goals

d) Monitoring the operating results of implemented plans and comparing actual results

e) Managers run their day to day activities

c Planning

e Directing

d Controlling

a Improving

b Decision making

155. Identify the following costs as (a) direct materials, (b) direct labor, or (c) factory overhead for a cake manufacturer.

1. _____ Frosting
2. _____ Depreciation on oven
3. _____ Wages of bakers
4. _____ Sprinkles for topping

1. Direct material
2. Factory overhead
3. Direct labor
4. Factory overhead

156. Identify the following costs as (a) prime cost, (b) conversion cost, (c) or both for a cake factory.

1. _____ Frosting
2. _____ Wages of the baker
3. _____ Sprinkles for the topping (considered an indirect material)
4. _____ Depreciation on oven

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

157. Identify the following costs as a (a) product cost or (b) period cost for a cake factory.

1. _____ Frosting
2. _____ Baker's wages
3. _____ Advertising fees
4. _____ Transportation out

1. a

2. a

3. b

4. b

158. The Zoe Corporation has the following information for the month March. Determine the (a) cost of goods manufactured, and (b) cost of goods sold.

Cost of materials placed in production	\$69,000
Direct labor	27,000
Factory overhead	34,000
Work in process, March 1	15,000
Work in process, March 31	19,500
Finished goods inventory, March 1	25,000
Finished goods inventory, March 31	23,000

(a)

Work in process inventory, March 1		\$15,000
Cost of materials placed in production	\$69,000	
Direct labor	27,000	
Factory overhead	34,000	
Total manufacturing costs added		<u>130,000</u>
Total manufacturing costs		145,000
Less: Work in process inventory, March 31		<u>19,500</u>
Cost of goods manufactured		125,500

(b)

Finished goods inventory, March 1	\$25,000
Cost of goods manufactured	<u>125,500</u>
Cost of finished goods available for sale	150,500
Less: Finished good inventory, March 31	23,000
Cost of goods sold	<u>127,500</u>

159. Sienna Company has the following information for January.

Cost of materials placed in production	\$20,000
Direct labor	15,000
Factory overhead	24,000
Work in process inventory, January 1	2,900
Work in process inventory, January 31	3,500

Show your calculations to find the cost of goods manufactured.

Work in process inventory, January 1		\$2,900
Cost of materials placed in production	\$20,000	
Direct labor	15,000	
Factory overhead	<u>24,000</u>	
Total manufacturing costs incurred		<u>59,000</u>
Total manufacturing costs		61,900
Less: Work in process inventory, January 31		<u>3,500</u>
Cost of goods manufactured		<u>\$58,400</u>

160. Magnus Industries has the following data:

Beginning Raw Materials Inventory	\$75,000
Materials purchased	\$40,000
Ending Raw Materials Inventory	\$60,000

Show how you would calculate Raw Materials Used.

$$\$75,000 + \$40,000 - \$60,000 = \$55,000 \text{ Raw Materials Used}$$

161. Watson Company has the following data:

Work in Process, Beginning	\$18,000
Work in Process, Ending	\$25,000
Direct Labor costs incurred	\$5,000
Cost of Goods Manufactured	\$9,000
Factory Overhead	\$7,000

Show how you would calculate the amount of Direct Materials Used.

$$[(\$25,000 - \$18,000) + \$9,000] - (\$7,000 + \$5,000) = \$4,000$$

162. Laramie Technologies had the following data:

Cost of Materials Used	\$50,000
Direct Labor costs	\$56,000
Factory Overhead	\$28,000
Work in Process, beg.	\$45,000
Work in Process, end.	\$32,000

Show your calculations to determine the Cost of Goods Manufactured.

$$\$50,000 + \$56,000 + \$28,000 + (\$45,000 - \$32,000) = \$147,000$$

163. Keeton Company had the following data:

Cost of Materials Used	\$60,000
Direct Labor costs	\$58,000
Factory Overhead	\$33,000
Work in Process, beg.	\$29,000
Work in Process, end.	\$18,000
Finished Goods, beg.	\$32,000
Finished Goods, end.	\$18,000

Show your calculations to determine the Cost of Goods Sold.

$$\$60,000 + \$58,000 + \$33,000 + (\$29,000 - \$18,000) + (\$32,000 - \$18,000) = \$176,000$$

164. The Zoe Corporation has the following information for the month of March. Prepare a (a) schedule of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) prepare only the inventory section of the balance sheet.

Purchases	\$92,000
Materials inventory, March 1	6,000
Materials inventory, March 31	8,000
Direct labor	25,000
Factory overhead	37,000
Work in process, March 1	22,000
Work in process, March 31	23,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	30,000
Sales	257,000
Sales and administrative expenses	79,000

a)

Zoe Corporation			
Statement of Cost of Goods Manufactured			
For Month Ended March 31, 20xx			
Work in process inventory March 1			\$22,000
Direct Materials:			
Materials inventory, March 1	\$6,000		
Purchases	<u>92,000</u>		
Cost of materials for use	98,000		
Less materials inventory, March 31	<u>8,000</u>		
Cost of materials placed in production		90,000	
Direct Labor		25,000	
Factory overhead		<u>37,000</u>	
Total manufacturing costs added			<u>152,000</u>

Total manufacturing costs			174,000
Less work in process inventory, March 31			23,500
Cost of goods manufactured			<u>\$150,500</u>

(b)

Zoe Corporation		
Income Statement		
For Month Ended March 31, 20xx		
Sales		\$257,000
Cost of goods sold:		
Finished goods inventory, March 1	\$21,000	
Cost of goods manufactured	<u>150,500</u>	
Cost of finished goods available for sales	171,500	
Less finished goods inventory, March 31	30,000	
Cost of goods sold		<u>141,500</u>
Gross Profit		115,500
Operating expenses:		
Sales and administrative expenses		<u>79,000</u>
Net Income		<u>\$36,500</u>

(c)

Inventory:	
Materials	\$8,000
Work in process	23,500
Finished goods	<u>30,000</u>
Total Inventory	\$61,500

165. The following data (in thousands of dollars) have been taken from the accounting records of Rayburn Corporation for the current year.

Sales	\$1,980
Selling expenses	280
Manufacturing overhead	460
Direct labor	400
Administrative expenses	300
Purchases of raw materials	240
Finished goods inventory, beginning	240
Finished goods inventory, ending	320
Raw materials inventory, beginning	80
Raw materials inventory, ending	140
Work in process inventory, beginning	140
Work in process inventory, ending	100

Required: (Present all reports and calculations in thousands of dollars)

- (a) What was the cost of the raw materials used in production during the year?
- (b) What was the cost of goods manufactured (finished) for the year?
- (c) What was the cost of goods sold for the year?
- (d) What was the net income for the year?

- (a) The cost of the raw materials used in production during the year is determined as follows:

Raw materials inventory, beginning	\$ 80
Purchases of raw materials	240
Less raw materials inventory, ending	<u>(140)</u>
Raw materials used in production	<u>\$180</u>

- (b) The cost of goods manufactured (finished) during the year is determined as follows:

Raw materials used in production	\$ 180
Direct labor	400
Manufacturing overhead	<u>460</u>
Total manufacturing costs	1,040
Work in process inventory, beginning	<u>140</u>
	1,180
Less: work in process inventory, ending	<u>(100)</u>
Cost of goods manufactured	<u>\$1,080</u>

(c)The cost of goods sold for the year is determined as follows:

Finished goods inventory, beginning	\$ 240
Cost of goods manufactured	1,080
Less finished goods inventory, ending	<u>(320)</u>
Cost of goods sold	<u>\$1,000</u>

(d)The net income for the year is determined as follows:

Sales		\$1,980
Cost of goods sold		<u>1,000</u>
Gross profit		980
Operating expenses:		
Administrative expenses	\$300	
Selling expenses	<u>280</u>	<u>(580)</u>
Net income		<u>\$ 400</u>

166. Differentiate between:

- a) direct materials versus indirect materials
- b) direct labor versus indirect labor

a) Direct materials must become a physical part of the finished product and their costs must be separately and conveniently traceable through the manufacturing process to finished goods inventory. Examples include wood, leather, steel, etc.

Indirect materials become part of the finished product but their minor costs cannot conveniently be traced directly to particular finished products. They are included as part of factory overhead.

b) Direct labor cost is the compensation of employees who physically convert materials into the company's products and whose effort can be traced directly to finished goods inventory. Examples include machine operators and assemblers.

Indirect labor is factory labor that is difficult to trace to specific products. Instead, the cost is included in factory overhead. Examples include forklift operators, janitors, and plant managers.

167. Classify the following costs as direct, indirect, or neither:

a)	_____	indirect labor incurred
b)	_____	factory equipment depreciation
c)	_____	indirect materials used
d)	_____	office equipment depreciation
e)	_____	direct materials used
f)	_____	insurance expired on administrative facilities
g)	_____	direct labor incurred
h)	_____	administrative office salaries
i)	_____	salespersons' salaries
j)	_____	utilities on factory building
k)	_____	utilities on administrative facilities

a) indirect

b) indirect

c) indirect

d) neither

e) direct

f) neither

g) direct

h) neither

i) neither

j) indirect

k) neither

168. Use the correct number to designate each item below:

- 1) direct materials
- 2) selling and administrative expense
- 3) factory overhead
- 4) direct labor

a)	_____	rent expense on factory building
b)	_____	sales supplies used
c)	_____	factory supplies used
d)	_____	indirect materials used
e)	_____	wages of assembly line personnel
f)	_____	cost of primary material used to make product
g)	_____	depreciation on office equipment
h)	_____	rent on office facilities
i)	_____	insurance expired on factory equipment
j)	_____	utilities incurred in the office
k)	_____	advertising expense

- a) 3
- b) 2
- c) 3
- d) 3
- e) 4
- f) 1
- g) 2
- h) 2
- i) 3
- j) 2
- k) 2

169. The Sharpe Company reports the following information for 2012:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Compute:

a) product costs

b) period costs

a) $\$7,300 + \$4,700 + \$5,900 + \$10,500 + \$4,200 + \$1,200 + \$1,200 = \$35,000$

b) $\$15,600 + \$8,900 = \$24,500$

170. Allen Company used \$71,000 of direct materials and incurred \$37,000 of direct labor costs during 2011. Indirect labor amounted to \$2,700 while indirect materials used totaled \$1,600. Other operating costs pertaining to the factory included utilities of \$3,100; maintenance of \$4,500; supplies of \$1,800; depreciation of \$7,900; and property taxes of \$2,600. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$5,500 balance and ended the year with a \$7,500 balance.

Prepare a statement of cost of goods manufactured.

Allen Company

Statement of Cost of Goods Manufactured

For the Year Ended December 31, 2011

Beginning work in process			\$ 5,500
Direct materials used		\$71,000	
Direct labor incurred		37,000	
Factory overhead			
Indirect labor	\$2,700		
Indirect materials	1,600		
Utilities	3,100		
Maintenance	4,500		
Supplies	1,800		
Depreciation	7,900		
Property taxes	<u>2,600</u>	<u>24,200</u>	
Total manufacturing costs incurred			<u>132,200</u>
Total manufacturing costs			137,700
Less ending work in process inventory			<u>(7,500)</u>
Cost of goods manufactured			\$130,200

171. The following information is available for Carter Corporation for 2012:

- 1) Materials inventory decreased \$4,000 during 2012.
- 2) Materials inventory on December 31, 2012, was 50% of materials inventory on January 1, 2012.
- 3) Beginning work in process inventory was \$145,000.
- 4) Ending finished goods inventory was \$65,000.
- 5) Purchases of direct materials were \$154,700.
- 6) Direct materials used were 2.5 times the cost of direct labor.
- 7) Total manufacturing costs incurred were \$246,400, 80% of cost of goods manufactured and \$156,000 less than cost of goods sold.

Compute:

- a) finished goods inventory on January 1, 2012
- b) work in process inventory on December 31, 2012
- c) direct labor incurred
- d) factory overhead incurred
- e) direct materials used
- f) materials inventory on January 1, 2012
- g) materials inventory on December 31, 2012

Note to students: The answers are not necessarily calculated in alphabetical order.

a) $\text{cost of goods sold} = \$246,400 + \$156,000 = \$402,400$

$$\$402,400 + \$65,000 - \$308,000 = \$159,400$$

b) $\text{cost of goods manufactured} = \$246,400 / .80 = \$308,000$

$$\$246,400 + \$145,000 - \$308,000 = \$83,400$$

c) $\$158,700 / 2.5 = \$63,480$

d) $\$246,400 - \$158,700 - \$63,480 = \$24,220$

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

f) X = January 1, 2012 materials inventory

$$\$4,000 = .5X$$

$$X = \$8,000$$

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

172. Rosalba Manufacturing Company had the following account balance for 2012:

	January 1	December 31
Accounts receivable	\$27,000	\$33,000
Materials inventory	22,500	6,000
Work in process inventory	70,200	48,000
Finished goods inventory	3,000	15,000

Collections on account were \$625,000 in 2012.

Cost of goods sold was 68% of sales.

Direct materials purchased amounted to \$90,000.

Factory overhead was 300% of the cost of direct labor.

Compute:

- a) sales revenue (all sales were on account)
- b) cost of goods sold
- c) cost of goods manufactured
- d) direct labor incurred
- e) direct materials used
- f) factory overhead incurred

a) $\$33,000 + \$625,000 - \$27,000 = \$631,000$

b) $\$631,000 \times .68 = \$429,080$

c) $\$15,000 + \$429,080 - \$3,000 = \$441,080$

d) $\$441,080 + \$48,000 - \$70,200 = \$418,880$ total manufacturing costs added

$\$418,880 - \$106,500 = \$312,380$

$\$312,380 = \text{factory overhead} + \text{direct labor}$

Let X = direct labor

$$3X + X = \$312,380$$

$$4X = \$312,380$$

$$X = \$78,095$$

e) $\$22,500 + \$90,000 - \$6,000 = \$106,500$

f) $\$78,095 \times 3 = \$234,285$

173. Sineath Industries had a fire and some of its accounting records were destroyed. Available information is presented below for the year ended December 31, 2011.

Materials inventory, December 31, 2011	\$15,000
Direct materials purchased	28,000
Direct materials used	22,900
Cost of goods manufactured	135,000

Additional information is as follows:

Factory overhead is 150% of direct labor cost.

Finished goods inventory decreased by \$18,000 during the year.

Work in process inventory increased by \$12,000 during the year.

Calculate:

- a) materials inventory, January 1, 2011
- b) direct labor cost
- c) factory overhead incurred
- d) cost of goods sold

a) $\$15,000 + \$22,900 - \$28,000 = \$9,900$

b) $\$135,000 + \$12,000 = \$147,000$ total manufacturing costs

$\$147,000 - \$22,900 = \$124,100$ direct labor and factory overhead

Let X = direct labor cost

$X + 1.5X = \$124,100$

$2.5X = \$124,100$

$X = \$49,640$

c) $\$49,640 \times 1.5 = \$74,460$

d) $\$135,000 + \$18,000 = \$153,000$

174. Classify the following costs as either a product cost or a period cost:

a)	_____	direct materials used
b)	_____	factory utilities
c)	_____	salespersons' commissions
d)	_____	salary of plant manager
e)	_____	indirect materials used
f)	_____	depreciation on store equipment
g)	_____	indirect labor incurred
h)	_____	advertising expense
i)	_____	direct labor incurred
j)	_____	factory machinery repairs and maintenance
k)	_____	depreciation on factory machinery
l)	_____	plant insurance expired

a) product

b) product

c) period

d) product

e) product

f) period

g) product

h) period

i) product

j) product

k) product

l) product

175. Differentiate between financial and managerial accounting, addressing such issues as what reports are generated, when, and for whom.

	Managerial Accounting	Financial Accounting
Users	Internal managers	External investors, creditors, government
Reports	Detailed reports, not restricted by GAAP	Summary reports, restricted by GAAP
Timing	Future orientation	Past orientation