

Test Bank
Principles of Cost Accounting, 14e

Edward J. VanDerbeck
Department of Accountancy
Xavier University

Prepared by:
Maria R. Mitchell
Thomas More College
Crestview Hills, Kentucky

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THOMSON

SOUTH-WESTERN

This test bank contains a series of tags to provide guidance about the objectives of each question to the instructor. The tags include:

- The degree of difficulty;
- To which learning objective in the text the question corresponds;
- The Institute of Management Accountants (IMA) Major Topic which is found under the “National Standard” tag in EXAMVIEW; and
- The Assurance of Learning Standard per the Association to Advance Collegiate Schools of Business (AACSB) which is found under the “Topics” tag in EXAMVIEW.

Degree of Difficulty

Each multiple choice question and problem has been assigned a degree of difficulty of Easy, Moderate or Hard.

- Generally, multiple choice questions that are definitions and contain language which is the same or fairly similar to that of the text have been labeled “Easy.” Other multiple choice questions that would be labeled as “Easy” include concept application questions where the answer is fairly obvious among the choices. There are very few multiple choice questions that involve computations or problems that have been tagged “Easy.”
- Moderate multiple choice questions include concept application questions, computational questions involving one level of calculations and definitions where interpretation is required because the language is somewhat different than the text or where the concept is one of the more obscure concepts in the chapter. Problems that are labeled as moderate are those that are similar to exercises in the text or do not involve a significant amount of computation.
- Multiple choice questions and problems that involve more than one learning objective, multiple layers of computations, subtleties or require a different approach than presented in the text have been tagged “Hard.”

Consider the following examples from chapter 1:

In job order costing, the basic document for accumulating the cost of each order is the:

- a. Job cost sheet.
- b. Requisition sheet.
- c. Purchase order.
- d. Invoice.

This question was considered “Easy” since the answer, job cost sheet, could be either recalled quickly from reading or fairly obvious due to the terminology.

Under a job order system of accounting, Cost of Goods Sold is debited and Finished Goods is credited for a:

- a. Transfer of materials to the factory.
- b. Shipment of completed goods to the customer.
- c. Transfer of completed production to the finished goods storeroom.
- d. Purchase of goods on account.

This question was tagged “Moderate” because it involves some thought as to the journal entries and the flow of goods through the plant. It may or may not be something that is recalled quickly.

Which of the following would be least likely to appear on a performance report based on responsibility accounting for the supervisor of an assembly line in a large manufacturing situation?

- a. Direct labor.
- b. Supervisor’s salary.
- c. Materials.
- d. Repairs and maintenance.

This question was tagged “Hard” because it may not be apparent to students that a supervisor’s salary would not appear on his or her performance report as he or she does not have control over the amount. A similar question, where Option “b” is “selling expenses” would be moderate because it would be easier for the student to ascertain that a performance report in a factory would not include selling expenses.

Further information about the degree of difficulty can be found under “Learning Objectives” and “AACSB.”

Learning Objectives

The problems may be tagged with multiple learning objectives, but each multiple choice question has been assigned just one learning objective based on the primary purpose of the question. For example, consider the following multiple choice question from chapter 4:

The Owens Company uses the machine hour method of applying factory overhead to production. The budgeted factory overhead last year was \$200,000 and there were 40,000 machine hours budgeted. Actual machine hours incurred during the period were 38,000, and actual factory overhead was \$215,000. What is the amount of under- or overapplied factory overhead?

- a. \$10,000 underapplied
- b. \$15,000 underapplied
- c. \$25,000 underapplied
- d. \$10,000 overapplied

The primary objective of this problem is to calculate the under- or overapplied factory overhead, so it was assigned to learning objective 7, “account for actual and applied factory overhead.”

In addition, because the question also involves the calculation of the predetermined factory overhead rate and the application of overhead, which is discussed under learning objective 6, “Apply factory overhead using predetermined rates,” and because it involves significant computation for a multiple choice problem, it has been tagged as “Hard” in difficulty.

If this question was a problem, it would be labeled with both learning objectives 6 and 7 and would be considered “Moderate” in difficulty because the required computations would not be onerous for a problem.

IMA Major Topics

Only one IMA tag has been assigned to each question dependent upon the primary objective of the question.

<i>Tags</i>	<i>Skills</i>
1. Business Analysis	
A. Business Economics	Micro-economics, laws of supply and demand, fixed, variable and marginal costs, competition, monopoly, macro-economics, inflation, unemployment, economic growth, gross domestic product, the business cycle and fiscal monetary policies.
B. Global Business	Global trade, net exports, net imports, foreign currency, foreign monetary exchanges, function of the World Bank, IMF, and legal and ethical issues of global business.
C. Internal Controls	Risk assessment, risk management, inherent risk, control risk, detection risk, segregation of duties, internal audit function, threats to information systems, controls to limit threats and disaster recovery plans.
D. Quantitative Methods	Regression equation, assumptions of simple regression analysis, linear programming and mathematical formulation of a constraint.
E. Financial Statement Analysis	Development of U.S. accounting standards, distinct responsibilities of management and auditors for the financial statements and financial ratios.
2. Management Accounting and Reporting	
A. Budget Preparation *	The use of budgeting concepts and systems to prepare operational, financial and capital budgets and pro forma financial statements.
B. Cost Management *	Terminology related to cost principles, cost behavior drivers, product costs, cost of goods sold, job costing, process costing, activity costing, lifecycle costing, the nature of overhead expenses and the nature of overhead cost drivers.
C. Information Management	Business information processing systems including networks, applicable software, electronic commerce and enterprise-wide planning systems.
D. Performance Measurement *	Standard cost variances, responsibility centers, reporting segments, transfer pricing and the balanced scorecard.
E. External Financial Reporting	Objectives of external financial reporting, basic accounting assumptions, financial statement ele-

	ments and special accounting topics.
3. Strategic Management	
A. Strategic Planning	Manufacturing paradigms such as the theory of constraints, JIT manufacturing, MRP, capacity management, value chain analysis, value added concepts, process analysis, benchmarking, activity based management and continuous improvement concepts.
B. Strategic Marketing	Interrelationships between strategy and marketing, customer value, customer satisfaction, marketing information needs, difference between products and services, product line decisions, product mix decisions, new product development, product life-cycle strategies, pricing decisions, general pricing approaches and product mix pricing strategies.
C. Corporate Finance	Rates of return, risk, different types of risk, using hedging to manage financial risk, financial instruments, value bonds, common stock, preferred stock, impact of income taxes on financing decisions, cost of capital and capital structure.
D. Decision Analysis *	Steps needed to reach a decision, relevant costs, sunk costs, opportunity costs, cost/volume/profit analysis, special orders and pricing decisions, make versus buy decisions, sell or process further decisions, add or drop a segment decisions, price setting and target costing.
E. Investment Decision Analysis	Capital budgeting, discounted cash flow analysis, payback and ranking of investment projects.
4. Business Applications	“Standards of Ethical Conduct for IMA Members,” organization management, organization communication, behavioral issues and ethical considerations.

This test bank did not utilize all of the above tags. Topics marked with “*” were the primary tags used, but other tags were utilized as appropriate.

AACSB

These are derived from the AACSB website “The Assurance of Learning Standards 15. Management of Curricula.”

<i>Tags</i>	<i>Skills</i>
AACSB Communication	Communication abilities
AACSB Ethics	Ethical understanding and reasoning abilities
AACSB Analytic	Analytic skills
AACSB Technology	Use of information technology
AACSB Diversity	Multicultural and diversity understanding
AACSB Reflective Thinking	Reflective thinking skills

Multiple choice questions involving definitions, computations or descriptions of procedure were considered “Analytic,” as were most of the problems. Questions that require the student to apply a definition were tagged “Reflective” for reflective thinking. There were some multiple choice questions pertaining to ethics that were tagged as such. Tags for Communication, Technology or Diversity were not relevant to this test bank.

Consider these questions from chapter 1 which test the same concept:

Factory overhead includes:

- a. Indirect labor, but not indirect materials.
- b. Indirect material, but not indirect labor.
- c. All manufacturing costs, except indirect material and indirect labor.
- d. All manufacturing costs, except direct materials and direct labor.

This question tests the student’s knowledge of the definition, so it is “Analytic.” It has also been marked “Easy.”

Factory overhead would include:

- a. Wages of office clerk.
- b. Sales manager’s salary.
- c. Supervisor’s salary.
- d. Tax accountant’s salary.

This question involves knowledge of not only the definition, but application of that knowledge to a factory setting, so it was tagged “Reflective” and “Moderate.”

Maria R. Mitchell
Thomas More College
Crestview Hills, Kentucky

CHAPTER 1—INTRODUCTION TO COST ACCOUNTING

MULTIPLE CHOICE

1. Factory overhead includes:
 - a. Indirect labor but not indirect materials.
 - b. Indirect materials but not indirect labor.
 - c. All manufacturing costs, except indirect materials and indirect labor.
 - d. All manufacturing costs, except direct materials and direct labor.

ANS: D

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

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

2. The term "prime cost" refers to:
 - a. The sum of direct labor costs and all factory overhead costs.
 - b. The sum of raw material costs and direct labor costs.
 - c. All costs associated with manufacturing other than direct labor costs and raw material costs.
 - d. Manufacturing costs incurred to produce units of output.

ANS: B

The term "prime cost" refers to the sum of raw materials costs and direct labor costs.

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

3. The term "conversion costs" refers to:
 - a. The sum of direct labor costs and all factory overhead costs.
 - b. The sum of raw material costs and direct labor costs.
 - c. All costs associated with manufacturing other than direct labor costs.
 - d. Direct labor costs incurred to produce units of output.

ANS: A

The term "conversion costs" refers to the sum of direct labor costs and all factory overhead costs.

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

4. A typical factory overhead cost is:
 - a. Freight out.
 - b. Stationery and printing.
 - c. Depreciation on machinery and equipment.
 - d. Postage.

ANS: C

Depreciation on machinery and equipment is a factory overhead cost (i.e., it is a manufacturing cost, but it can't be identified with specific jobs or processes), whereas the other three items are selling and administrative expenses.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

5. Under a job order system of cost accounting, the dollar amount of the entry to transfer inventory from Work in Process to Finished Goods is the sum of the costs charged to all jobs:
- In process during the period.
 - Completed and sold during the period.
 - Completed during the period.
 - Started in process during the period.

ANS: C

When jobs are completed during the period, Finished Goods is debited and Work in Process is credited for the cost of the finished jobs.

PTS: 1 DIF: Moderate REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

6. Which of the following production operations would be most likely to employ a job order system of cost accounting?
- Candy manufacturing
 - Crude oil refining
 - Printing text books
 - Flour Milling

ANS: C

Printing would be most likely to employ a job order system of cost accounting due to the number of custom jobs involved. The manufacture of candy, the vulcanizing of rubber, and the refining of crude oil would normally be a continuous process of producing like goods and would be accounted for under the process cost system.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

7. In job order costing, the basic document for accumulating the cost of each order is the:
- Job cost sheet.
 - Requisition sheet.
 - Purchase order.
 - Invoice.

ANS: A

In job order costing, the basic document to accumulate the cost of each order is the job cost sheet.

PTS: 1 DIF: Easy REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

8. When should process costing techniques be used in assigning costs to products?
- In situations where standard costing techniques should not be used
 - If the product is composed of mass-produced homogeneous units
 - When production is only partially completed during the accounting period
 - If the product is manufactured on the basis of each order received

ANS: B

Process costing techniques should be used in assigning costs to products if the product is composed of mass-produced homogeneous units.

PTS: 1 DIF: Easy REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

9. An industry that would **most** likely use process costing procedures is:
- Beverage.
 - Home Construction.
 - Printing.
 - Shipbuilding.

ANS: A

Beverage production usually consists of manufacturing "long runs" of homogeneous products for which process costing is used. The other three industries would utilize job order costing.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

10. Under a job order system of cost accounting, Cost of Goods Sold is debited and Finished Goods is credited for a:
- Transfer of materials to the factory.
 - Shipment of completed goods to the customer.
 - Transfer of completed production to the finished goods storeroom.
 - Purchase of goods on account.

ANS: B

When completed goods are shipped to customers, Cost of Goods Sold is debited and Finished Goods is credited.

PTS: 1 DIF: Moderate REF: P. OBJ: 7
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

11. Payroll is debited and Wages Payable is credited to:
- Pay the payroll taxes.
 - Record the payroll.
 - Pay the payroll.
 - Distribute the payroll.

ANS: B

When the payroll is recorded, Payroll is debited and Wages Payable is credited. When payroll taxes are paid, the various liability accounts are debited and Cash is credited. When the payroll is paid, Wages Payable is debited and Cash is credited. When the payroll is distributed, Work in Process, Factory Overhead, and Selling and Administrative Expenses are debited and Payroll is credited.

PTS: 1 DIF: Moderate REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

12. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Raw materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Raw materials used		\$365
Total manufacturing costs charged to production during the year (includes raw materials, direct labor, and factory		

overhead)	680
Cost of goods available for sale	765
Selling and general expenses	250

The cost of raw materials purchased during the year amounted to:

- \$455.
- \$450.
- \$365.
- \$360.

ANS: D

Raw materials used	\$365
Add ending inventory of raw materials	<u>85</u>
Materials available during the year	\$450
Less beginning inventory of raw materials	<u>90</u>
Purchases of raw materials during the year	<u>\$360</u>

PTS: 1 DIF: Hard REF: P. OBJ: 4
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

13. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Raw materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Raw materials used		\$365
Total manufacturing costs charged to production during the year (includes raw materials, direct labor, and factory overhead)		680
Cost of goods available for sale		765
Selling and general expenses		250

The cost of goods manufactured during the year was:

- \$735.
- \$710.
- \$665.
- \$705.

ANS: C

Total manufacturing costs during the year	\$680
Add beginning work in process inventory	<u>50</u>
Total	\$730
Less ending work in process inventory	<u>- 65</u>
Cost of goods manufactured during the year	<u>\$665</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 4
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

14. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Raw materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Raw materials used		\$365
Total manufacturing costs charged to production during the year (includes raw materials, direct labor, and factory overhead)		680
Cost of goods available for sale		765
Selling and general expenses		250

The cost of goods sold during the year was:

- a. \$730.
- b. \$775.
- c. \$675.
- d. \$765.

ANS: C

Beginning finished goods inventory	\$100
Add cost of goods manufactured during the year (\$680 + \$50 - \$65)	<u>665</u>
Total cost of goods available for sale	\$765
Less ending finished goods inventory	<u>90</u>
Cost of goods sold during the year	<u>\$675</u>

PTS: 1 DIF: Hard REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

15. At a certain level of operations, per unit costs and profit are as follows: manufacturing costs, \$50; selling and administrative expenses, \$10; desired profit, \$20. Given this information, the mark-on percentage to manufacturing cost used to determine selling price must have been:
- a. 40 percent.
 - b. 60 percent.
 - c. 33 percent.
 - d. 25 percent.

ANS: B

Manufacturing cost	\$50
Selling and administrative expenses	10
Desired profit	<u>20</u>
Selling price	<u>\$80</u>

$$\frac{\text{Selling price} - \text{Manufacturing costs}}{\text{Manufacturing costs}} = \text{Mark-on percentage}$$

$$\frac{\$80 - \$50}{\$50} = 60\%$$

PTS: 1 DIF: Hard REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

16. Which of the following items of cost would be **least** likely to appear on a performance report based on responsibility accounting for the supervisor of an assembly line in a large manufacturing situation?
- Direct labor
 - Supervisor's salary
 - Materials
 - Repairs and maintenance

ANS: B

A supervisor's salary would be least likely to appear on a performance report, because that person's salary is determined by the company and is not controllable by the supervisor.

PTS: 1 DIF: Hard REF: P. OBJ: 1
NAT: IMA 2D - Performance Measurement TOP: AACSB - Reflective

17. Which of the following items of cost would be **least** likely to appear on a performance report based on responsibility accounting for the supervisor of an assembly line in a large manufacturing situation?
- Direct labor
 - Indirect materials
 - Selling expenses
 - Repairs and maintenance

ANS: C

Selling expenses would be least likely to appear on a performance report, because the supervisor would not have responsibility for the sales function.

PTS: 1 DIF: Moderate REF: P. OBJ: 1
NAT: IMA 2D - Performance Measurement TOP: AACSB - Reflective

18. Which of the following statements best describes a characteristic of a performance report prepared for use by a production line department head?
- The costs in the report should include only those controllable by the department head.
 - The report should be stated in dollars rather than in physical units so the department head knows the financial magnitude of any variances.
 - The report should include information on all costs chargeable to the department, regardless of their origin or control.
 - It is more important that the report be precise than timely.

ANS: A

The performance report should include only those costs controllable by the department head. It should also be timely and should include production data as well as dollar amounts.

PTS: 1 DIF: Easy REF: P. OBJ: 1
NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic

19. Unit cost information is important for making all of the following marketing decisions **except**:
- Determining the selling price of a product.
 - Bidding on contracts.
 - Determining the amount of advertising needed to promote the product.
 - Determining the amount of profit that each product earns.

ANS: C

Unit cost information is used in determining selling price, bidding on contracts and determining product profitability, but would not have a bearing on determining how much the product would need to be advertised..

PTS: 1 DIF: Moderate REF: P. OBJ: 1
NAT: IMA 3B - Strategic Marketing TOP: AACSB - Analytic

20. Cost accounting differs from financial accounting in that financial accounting:
- Is mostly concerned with external financial reporting.
 - Is mostly concerned with individual departments of the company.
 - Provides the additional information required for special reports to management.
 - Puts more emphasis on future operations.

ANS: A

Items (b) through (d) are characteristics of cost accounting, whereas Item (a) is a feature of financial accounting.

PTS: 1 DIF: Moderate REF: P. OBJ: 3
NAT: IMA 2E - External Financial Reporting TOP: AACSB - Reflective

21. The business entity that converts purchased raw materials into finished goods by using labor, technology, and facilities is a:
- Manufacturer.
 - Merchandiser.
 - Service business.
 - Not-for-profit service agency.

ANS: A

The business entity that converts purchased raw materials into finished goods by using labor, technology, and facilities is a manufacturer.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

22. The business entity that purchases finished goods for resale is a:
- Manufacturer.
 - Merchandiser.
 - Service business.
 - For-profit service business.

ANS: B

The business entity that purchases finished goods for retail is a merchandiser.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

23. The type of merchandiser who purchases goods from the producer and sells to stores who sell to the consumer is a:
- Manufacturer.
 - Retailer.
 - Wholesaler.
 - Service business.

ANS: C

The type of merchandiser that purchases goods from the producer and sells to the retailer is a wholesaler.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction

NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

24. Inventory accounts for a manufacturer include all of the following **except**:
- Merchandise Inventory.
 - Finished Goods.
 - Work in Process.
 - Materials.

ANS: A

Inventory accounts for a manufacturer include Materials, Work in Process, and Finished Goods.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

25. Examples of service businesses include:
- Airlines, architects, and hair stylists.
 - Department stores, poster shops, and wholesalers.
 - Aircraft producers, home builders, and machine tool makers.
 - None of these are correct.

ANS: A

Examples of service businesses include airlines, architects, and hair stylists.

PTS: 1 DIF: Moderate REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Reflective

26. In the financial statements, Materials should be categorized as:
- Revenue.
 - Expenses.
 - Assets.
 - Liabilities.

ANS: C

Materials are included in inventory, which is an asset on the balance sheet because it has a future benefit.

PTS: 1 DIF: Moderate REF: P. OBJ: 3
NAT: IMA 2E - External Financial Reporting TOP: AACSB - Reflective

27. Factory overhead would include:
- Wages of office clerk.
 - Sales manager's salary.
 - Supervisor's salary.
 - Tax accountant's salary.

ANS: C

The supervisor's salary is an indirect factory cost.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

28. The statement of costs of goods manufactured shows:
- Office supplies used in accounting office.
 - Depreciation of factory building.
 - Salary of sales manager.

d. Rent paid on finished goods warehouse.

ANS: B

The factory building is a cost necessary to manufacture goods.

PTS: 1 DIF: Hard REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

29. Responsibility accounting would **most** likely hold a manager of a manufacturing unit responsible for:
- cost of raw materials.
 - quantity of raw materials used.
 - workers pay scale.
 - amount of taxes incurred.

ANS: B

In responsibility accounting the manager of a cost center is only responsible for those costs the manager controls.

PTS: 1 DIF: Moderate REF: P. OBJ: 1
NAT: IMA 2D - Performance Measurement TOP: AACSB - Reflective

30. Which of the following is **not** a cost that is accumulated in Work in process?
- Direct materials
 - Administrative expense
 - Direct labor
 - Factory overhead

ANS: B

Administrative expense is not a factory cost, so it would not be included in work in process.

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

31. Mountain Company produced 20,000 blankets in June to be sold during the holiday season. The manufacturing costs were:

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	60,000

Management has decided that the mark-on percentage necessary to cover the product's share of selling and administrative expenses and to earn a satisfactory profit is 30%. The selling price per blanket should be:

- \$12.00.
- \$15.60.
- \$23.60.
- \$31.20.

ANS: B

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	<u>60,000</u>
Total manufacturing costs	<u>\$240,000</u>

$\$240,000 / 20,000 \text{ units} = \$12.00 \text{ cost per unit}$
 $\$12.00 \times 30\% = \$3.60 + \$12.00 = \15.60

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

32. Mountain Company produced 20,000 blankets in June to be sold during the holiday season. The manufacturing costs were:

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	60,000
Selling expense	25,000
Administrative expense	30,000

The cost per blanket is:

- \$6.25.
- \$9.00.
- \$12.00.
- \$14.75.

ANS: C

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	<u>60,000</u>
Total manufacturing costs	<u>\$240,000</u>

$\$240,000 / 20,000 \text{ units} = \$12.00 \text{ cost per unit}$

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

33. A law firm wanting to track the costs of serving different clients may use a:
- process cost system.
 - job order cost system.
 - cost control system.
 - standard cost system.

ANS: B

Professional firms use job order cost systems to track client costs.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

34. A standard cost system is one:
- that provides a separate record of cost for each special-order product.
 - that uses predetermined costs to furnish a measurement that helps management make decisions regarding the efficiency of operations.
 - that accumulates costs for each department or process in the factory.
 - where costs are accumulated on a job cost sheet.

ANS: B

A standard cost system uses predetermined standard costs to furnish a measurement that helps management make decisions regarding the efficiency of operations.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

35. Which of the following is **most** likely to be considered an indirect material in the manufacture of a sofa?
- Lumber
 - Glue
 - Fabric
 - Foam rubber

ANS: B

While glue would be included in the finished product, its cost would be relatively insignificant, therefore, it would not be cost effective to trace its cost to specific products.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

36. The Macke Company's payroll summary showed the following in November:

Sales department salaries	\$10,000
Supervisor salaries	20,000
Assembly workers' wages	25,000
Machine operators' wages	35,000
Maintenance workers' wages	15,000
Accounting department salaries	5,000

What is the amount that would be included in direct labor in November?

- \$25,000
- \$60,000
- \$95,000
- \$120,000

ANS: B

Assembly workers and machine operators would be considered direct labor.

Assembly workers' wages	\$25,000
Machine operators' wages	<u>35,000</u>
Total direct labor	<u>\$60,000</u>

The supervisors and maintenance workers would be included in overhead, while the sales and accounting department salaries would be included in selling and administrative expense.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

37. The Macke Company's payroll summary showed the following in November:

Sales department salaries	\$10,000
Supervisor salaries	20,000
Assembly workers' wages	25,000
Machine operators' wages	35,000
Maintenance workers' wages	15,000
Accounting department salaries	5,000

What is the amount that would be included in factory overhead in November?

- a. \$20,000
- b. \$35,000
- c. \$95,000
- d. \$120,000

ANS: B

The supervisors' salaries and maintenance workers' wages would be included in factory overhead.

Supervisors' salaries	\$20,000
Maintenance workers' wages	<u>15,000</u>
Total direct labor	<u>\$35,000</u>

The wages of the assembly workers and machine operators would be included in direct labor, while the sales and accounting department salaries would be included in selling and administrative expense.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

38. According to the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice, performing professional duties in accordance with relevant laws, regulations and technical standards is a component of which standard?
- a. Competence
 - b. Confidentiality
 - c. Integrity
 - d. Credibility

ANS: B

Performing technical duties in accordance with relevant laws, regulations and technical standards is a component of the competence standard.

PTS: 1 DIF: Moderate REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

39. The Institute of Management Accountants (IMA) Statement of Professional Practice includes all of the following standards except:
- a. Confidentiality.
 - b. Commitment.
 - c. Integrity.
 - d. Competence.

ANS: B

The four IMA Professional Standards are: Competence, Confidentiality, Integrity and Credibility.

PTS: 1 DIF: Easy REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

40. According to the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice, under the Integrity Standard, each member has the responsibility to:
- a. Communicate information fairly and objectively.
 - b. Keep information confidential.
 - c. Mitigate conflicts of interest.
 - d. Maintain an appropriate level of professional competence.

ANS: C

Under the Integrity Standard, IMA members have the responsibility to mitigate actual conflicts of interest and avoid apparent conflicts of interest.

PTS: 1 DIF: Moderate REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

41. Under a job cost system of accounting, the entry to distribute payroll to the appropriate accounts would be:
- a. Debit-Payroll
 Credit-Wages Payable
 - b. Debit-Work In Process
 Debit-Factory Overhead
 Debit-Selling and Administrative Expense
 Credit-Payroll
 - c. Debit-Work In Process
 Debit-Finished Goods
 Debit-Cost of Goods Sold
 Credit-Payroll
 - d. Debit-Work in Process
 Debit-Factory Overhead
 Debit-Selling and Administrative Expense
 Credit-Wages Payable

ANS: B

Payroll is credited when the amounts are distributed to the appropriate accounts. Those accounts include Work In Process for direct labor, Factory Overhead for indirect labor and Selling and Administrative Expense for salaries and wages incurred outside of the factory.

PTS: 1 DIF: Moderate REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

42. The following data were taken from Mansfield Merchandisers on January 31:
- | | |
|-----------------------------------|-----------|
| Merchandise inventory, January 1 | \$ 90,000 |
| Sales salaries | 35,000 |
| Merchandise inventory, January 31 | 65,000 |
| Purchases | 560,000 |

What was the Cost of goods sold in January?

- a. \$585,000
- b. \$650,000
- c. \$620,000
- d. \$535,000

ANS: A

Merchandise Inventory, January 1	\$ 90,000
Plus Purchases	<u>560,000</u>
Equals Cost of Goods Available for Sale	\$650,000
Less Merchandise Inventory, January 31	<u>65,000</u>
Equals Cost of Goods Sold	<u>\$585,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

43. Joshua Company prepares monthly performance reports for each department. The budgeted amounts of wages for the Finishing Department for the month of August and for the eight-month period ended August 31 were \$12,000 and \$100,000, respectively. Actual wages paid through July were \$91,500, and wages for the month of August were \$11,800. The month and year-to-date variances, respectively, for wages on the August performance report would be:
- \$200 F; \$8,500 F
 - \$200 F; \$3,300 U
 - \$200 U; \$3,300 U
 - \$200 U; \$8,500 F

ANS: B

Calculation of monthly variance:

Budgeted wages for August	\$12,000
Actual wages for August	<u>11,800</u>
Variance for August	<u>\$ 200</u> F

Calculation of year-to-date variance:

Budgeted wages for the eight-month period ended August 31	\$100,000
Actual wages for the eight-month period ended August 31 (91,500 + 11,800)	<u>103,300</u>
Variance for eight-month period ended August 31	<u>\$ 3,300</u> U

PTS: 1 DIF: Moderate REF: P. OBJ: 1
 NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic

PROBLEM

1. The following data was taken from the general ledger and other records of Martinez Manufacturing Co. at July 31, the end of the first month of operations in the current fiscal year:

Sales	\$50,000
Materials inventory (July 1)	15,000
Work in process inventory (July 1)	20,000
Finished goods inventory (July 1)	28,000
Materials purchased	21,000
Direct labor cost	12,500
Factory overhead (including \$5,000 of indirect materials used and \$2,500 of indirect labor cost)	11,500
Selling and administrative expense	8,000
Inventories at July 31:	
Materials	16,000
Work in process	18,000
Finished goods	30,000

- Prepare a statement of cost of goods manufactured.
- Determine the cost of goods sold for the month.

ANS:

(a)

Martinez Manufacturing Co.
Statement of Cost of Goods Manufactured
For the Month Ended July 31, 20--

Direct Materials:		
Inventory, July 1	\$15,000	
Purchases	<u>21,000</u>	
Total cost of available materials	\$36,000	
Less inventory, July 31	<u>16,000</u>	
Cost of materials used	\$20,000	
Less indirect materials used	<u>5,000</u>	
Cost of direct materials used in production		\$15,000
Direct labor		12,500
Factory overhead:		
Indirect materials	\$ 5,000	
Indirect labor	2,500	
Other	<u>4,000</u>	
Total factory overhead		<u>11,500</u>
Total manufacturing cost		\$39,000
Add work in process inventory, July 1		<u>20,000</u>
Total		\$59,000
Less work in process inventory, July 31		<u>18,000</u>
Cost of goods manufactured during the month		<u>\$41,000</u>

(b)

Finished goods inventory, July 1	\$28,000
Add cost of goods manufactured during July	<u>41,000</u>
Goods available for sale	\$69,000
Less finished goods inventory, July 31	<u>30,000</u>
Cost of goods sold	<u>\$39,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

2. The following data was taken from the general ledger and other records of Mrwick Manufacturing Co. at January 31, the end of the first month of operations in the current fiscal year:

Sales	\$650,000
Inventories at January 31:	
Materials inventory	20,000
Work in process inventory	32,000
Finished goods inventory	54,000
Inventories at January 1:	
Materials	25,000
Work in process	29,000
Finished goods	48,000
Materials purchased	154,000
Labor Costs:	
Assembly workers' wages	185,000
Supervisors' salaries	30,000
Sales personnel salaries	52,000
Depreciation:	
Factory building	73,000

Sales office	28,000
Indirect materials used	3,000
Factory utilities	67,000

- Prepare a statement of cost of goods manufactured.
- Determine the cost of goods sold for the month.

ANS:

(a)

Marwick Manufacturing Co.
Statement of Cost of Goods Manufactured
For the Month Ended January 31, 20--

Direct Materials:		
Inventory, January 1	\$25,000	
Purchases	<u>154,000</u>	
Total cost of available materials	\$179,000	
Less inventory, July 31	<u>20,000</u>	
Cost of materials used	\$159,000	
Less indirect materials used	<u>3,000</u>	
Cost of direct materials used in production		\$156,000
Direct labor		185,000
Factory overhead:		
Indirect materials	\$ 3,000	
Indirect labor (Supervisors)	30,000	
Depreciation	73,000	
Utilities	<u>67,000</u>	
Total factory overhead		<u>173,000</u>
Total manufacturing cost		\$514,000
Add work in process inventory, January 1		<u>29,000</u>
Total		\$543,000
Less work in process inventory, January 31		<u>32,000</u>
Cost of goods manufactured during the month		<u>\$511,000</u>

(b)

Finished goods inventory, January 1	\$48,000
Add cost of goods manufactured during July	<u>511,000</u>
Goods available for sale	\$559,000
Less finished goods inventory, January 31	<u>54,000</u>
Cost of goods sold	<u>\$505,000</u>

PTS: 1 DIF: Hard REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

3. Following is a list of costs incurred by the Sitka Products Co. during the month of June:

Direct materials used	\$12,000	Expired insurance	\$3,000
Indirect materials used	3,000	Utilities	800
Direct labor employed	20,000	Repairs	700
Indirect labor employed	4,500	Depreciation expense	
Selling expenses	6,000	--Machinery and equipment	1,200

Prepare the journal entries necessary to record the issuance of materials, the distribution of labor cost, the recording of factory overhead, and the entry transferring Factory Overhead to Work in Process.

ANS:

Work in Process (Direct Materials)	12,000	
Factory Overhead (Indirect Materials)	3,000	
Materials		15,000
Work in Process (Direct Labor)	20,000	
Factory Overhead (Indirect Labor)	4,500	
Payroll		24,500
Factory Overhead	5,700	
Prepaid Insurance		3,000
Accounts Payable (Utilities)		800
Accounts Payable (Repairs)		700
Accumulated Depreciation (Machinery and Equipment)		1,200
Work in Process	13,200	
Factory Overhead		13,200

PTS: 1 DIF: Moderate REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

4. The Shawshank Manufacturing Co. uses a job order cost system of accounting. The following information was taken from the books of the company after all posting had been completed at the end of January:

<u>Jobs Completed</u>	<u>Direct Materials Cost</u>	<u>Direct Labor Cost</u>	<u>Factory Overhead</u>	<u>Units Completed</u>
101	\$1,800	\$2,000	\$1,000	200
102	1,235	1,250	890	150
104	900	850	350	100

- Prepare the journal entries to allocate the costs of materials, labor, and factory overhead to each job and to transfer the costs of jobs completed to Finished Goods.
- Compute the total production cost of each job.
- Compute the unit cost of each job.
- Compute the selling price per unit for each job, assuming a mark-on percentage of 40 percent.

ANS:

(a)

Work in Process--Job 101	1,800	
Work in Process--Job 102	1,235	
Work in Process--Job 104	900	
Materials		3,935
Work in Process--Job 101	2,000	
Work in Process--Job 102	1,250	
Work in Process--Job 104	850	
Payroll		4,100

Work in Process--Job 101	1,000	
Work in Process--Job 102	890	
Work in Process--Job 104	350	
Factory Overhead		2,240
Finished Goods	10,275	
Work in Process--Job 101		4,800
Work in Process--Job 102		3,375
Work in Process--Job 104		2,100

(b)

Jobs <u>Completed</u>	Direct <u>Materials Cost</u>	Direct <u>Labor Cost</u>	Factory <u>Overhead</u>	Total <u>Production Cost</u>
101	\$1,800	\$2,000	\$1,000	\$4,800
102	1,235	1,250	890	3,375
104	900	850	350	2,100
Total	<u>\$3,935</u>	<u>\$4,100</u>	<u>\$2,240</u>	<u>\$10,275</u>

(c)

Unit Cost:

Job 101 (\$4,800 / 200)	\$24.00
Job 102 (\$3,375 / 150)	\$22.50
Job 104 (\$2,100 / 100)	\$21.00

(d)

Selling Price Per Unit:

Job 101 (\$24.00 × 40%) + \$24.00	\$33.60
Job 102 (\$22.50 × 40%) + \$22.50	\$31.50
Job 104 (\$21.00 × 40%) + \$21.00	\$29.40

PTS: 1 DIF: Hard REF: P. OBJ: 7
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

5. Custom Cabinets Inc. manufactures goods on a job order basis. During the month of November, three jobs were started. (There was no work in process at the beginning of the month.) Jobs 401 and 402 were completed and sold for \$14,500 and \$19,000, respectively, during the month; Job 403 was still in process at the end of November.

The following data are taken from the job cost sheets for each job. Factory overhead charges include a total of \$900 of indirect materials and \$600 of indirect labor. One work in process control account is used.

	<u>Job 401</u>	<u>Job 402</u>	<u>Job 403</u>
Direct materials	\$3,200	\$3,800	\$2,000
Direct labor	2,400	3,500	1,500
Factory overhead	1,250	2,000	850

Prepare a journal entry to record each of the following:

- Materials used
- Factory wages and salaries earned
- Factory Overhead transferred to Work in Process

- d. Jobs completed
- e. Jobs sold

ANS:

(a)

Work in Process (3,200 + 3,800 + 2,000)	9,000	
Factory Overhead	900	
Materials		9,900

(b)

Work in Process (2,400 + 3,500 + 1,500)	7,400	
Factory Overhead	600	
Payroll		8,000

(c)

Work in Process (1,250 + 2,000 + 850)	4,100	
Factory Overhead		4,100

(d)

Finished Goods	16,150	
Work in Process*		16,150
* Jobs completed:		
401 (3,200 + 2,400 + 1,250)	\$ 6,850	
402 (3,800 + 3,500 + 2,000)	9,300	
Total	<u>\$16,150</u>	

(e)

Cost of Goods Sold	16,150	
Finished Goods		16,150
Accounts Receivable (14,500 + 19,000)	33,500	
Sales		33,500

PTS: 1 DIF: Moderate REF: P. OBJ: 7
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

6. The following inventory data relate to the Reta Company:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Finished goods	\$80,000	\$100,000
Work in process	65,000	70,000
Direct materials	60,000	64,000

Revenues and costs for the period:

Sales	\$740,000
Cost of goods available for sale	650,000
Total manufacturing costs	575,000

Factory overhead	154,000
Direct materials used	164,000
Selling and administrative expenses	51,000

Compute the following for the year:

- Direct materials purchased
- Direct labor costs incurred
- Cost of goods sold
- Gross profit

ANS:

(a)

Direct materials used during the period		\$164,000
Add inventory of direct materials at the end of the period		<u>64,000</u>
Direct materials available during the period		\$228,000
Less inventory of direct materials at the beginning of the period		<u>60,000</u>
Direct materials purchased during the period		<u><u>\$168,000</u></u>

(b)

Total manufacturing costs incurred during the period		\$575,000
Less: Direct materials used	\$164,000	
Factory overhead incurred	<u>154,000</u>	<u>318,000</u>
Direct labor costs incurred during the period		<u><u>\$257,000</u></u>

(c)

Cost of goods available for sale		\$650,000
Less finished goods inventory at the end of the period		<u>100,000</u>
Cost of goods sold during the period		<u><u>\$550,000</u></u>

(d)

Sales		\$740,000
Cost of goods sold		<u>550,000</u>
Gross profit		<u><u>\$190,000</u></u>

PTS: 1 DIF: Moderate REF: P. OBJ: 4,5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

7. Campus Carriers Co. manufactures and sells backpacks to college students. Campus Carriers operates a factory in Small Town and two stores in College Town and University City. Classify the following costs incurred by Campus Carriers as Direct Materials, Direct Labor, Factory Overhead or Selling and Administrative Expense.

- Rent paid to lease the store in College Town.
- Canvas fabric.
- Wages paid to students distributing advertising fliers in University City.
- Sewing machine operator's wages.

- e. Building depreciation on the factory building.
- f. Thread.
- g. The cost of transporting the backpacks from the factory in Small Town to the Univeristy City store.
- h. Depreciation of the racks and shelves at the College Town Store.
- i. Factory manager's salary.
- j. Security guard at the factory.
- k. Store manager's salary.
- l. Electricity to power sewing machines.
- m. Electricity to light the College Town store.

ANS:

- a. Selling and administrative expense would include costs related to stores.
- b. Direct material - canvas would be used to make back packs.
- c. Selling and administrative expense would include advertising.
- d. Direct labor - sewing machine operators are "touch" labor.
- e. Factory overhead - depreciation is a factory expense that cannot be traced directly to the products.
- f. Factory overhead. While thread is included in the final product, the cost is insignificant and would be accounted for as an indirect cost.
- g. Selling and administrative expense. Transportation is incurred outside of the factory.
- h. Selling and administrative expense would include costs relating to the stores.
- i. Factory overhead - the factory manager's salary is a factory cost that cannot be traced directly to products.
- j. Factory overhead - the security guard's salary is a factory cost that cannot be traced directly to products.
- k. Selling and administrative expense would include all costs related to the stores.
- l. Factory overhead - electricity to run the machines is a factory cost that cannot be traced directly to products..
- m. Selling and administrative expense would include all costs related to the stores.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

8. The following data were taken from Middeltown Merchandisers on July 31, for the first month of its fiscal year:

Merchandise Inventory, July 31	\$ 25,000
Purchases	735,000
Cost of Goods Sold	750,000

Compute the inventory at July 1.

ANS:

Cost of Goods Sold	\$750,000
Plus Merchandise Inventory, July 31	<u>25,000</u>

Equals Cost of Goods Available for Sale	\$775,000
Less Purchases	<u>735,000</u>
Equals Merchandise Inventory, July 1	<u>\$ 40,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

9. Prepare a performance report showing both month and year-to-date data for County Hospital's Radiology Department for February, 2008 using the following data:

	January	February
Budgeted Data:		
Technicians' wages	\$6,200	\$5,600
Film	3,200	3,000
Depreciation	2,000	2,000
Utilities	1,500	1,400
Actual Data:		
Technicians' wages	\$6,120	\$5,650
Film	3,300	3,180
Depreciation	2,000	2,000
Utilities	1,580	1,390

ANS:

County Hospital Radiology Department
 Performance Report
 For Period Ended February 28, 2008

Expense	Budget		Actual		Variance	
	February	Year-to-Date	February	Year-to-Date	February	Year-to-Date
Technicians' wages	\$ 5,600	\$11,800	\$ 5,650	\$11,700	\$ 50 U	\$ 30 F
Film	3,000	6,200	3,180	6,480	180 U	280 U
Depreciation	2,000	4,000	2,000	4,000	--	--
Utilities	<u>1,400</u>	<u>2,900</u>	<u>1,390</u>	<u>2,970</u>	<u>10 F</u>	<u>70 U</u>
Total	<u>\$12,000</u>	<u>\$24,900</u>	<u>\$12,220</u>	<u>\$25,220</u>	<u>\$ 220 U</u>	<u>\$ 320 U</u>

PTS: 1 DIF: Hard REF: P. OBJ: 1
 NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic