

## Chapter 1: Introduction to Management Accounting

- 1.1-1 Managerial accounting's focus is to provide information for internal planning and control.
- Answer: True  
Difficulty: 1  
LO: 1-1  
EOC Ref: S1-1  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.1-2 Management accounting often requires forward-looking data because of the futuristic nature of many business decisions.
- Answer: True  
Difficulty: 1  
LO: 1-1  
EOC Ref: S1-1  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.1-3 Management accounting is influenced significantly by the Securities Exchange Commission.
- Answer: False  
Difficulty: 1  
LO: 1-1  
EOC Ref: S1-1  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.1-4 Budget preparation is a part of the planning process.
- Answer: True  
Difficulty: 1  
LO: 1-1  
EOC Ref: S1-2  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.1-5 Financial accounting and managerial accounting both utilize the accrual basis of accounting.
- Answer: True  
Difficulty: 1  
LO: 1-1  
EOC Ref: S1-1  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting

- 1.1-6 Which of the following is NOT an objective of management accounting?
- A) To provide information to business managers to assist them in planning for their business
  - B) To provide information to business managers to assist them in controlling their business
  - C) To provide information to shareholders to assist them with their investment decisions
  - D) To assist business managers with respect to providing a return to the owners of the business

Answer: C

Difficulty: 2

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-7 Which of the following statements is incorrect?
- A) The primary users of management accounting are the company's managers.
  - B) Management accounting information is used to help managers plan and control their operations.
  - C) Management accounting information does not require an external audit.
  - D) Management accounting's financial reports are restricted by generally accepted accounting principles.

Answer: D

Difficulty: 2

LO: 1-1

EOC Ref S1-2

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-8 Which of the following types of accounting is designed to meet the needs of decision-makers inside a company?
- A) Financial accounting
  - B) Tax accounting
  - C) Management accounting
  - D) Auditing

Answer: C

Difficulty: 1

LO: 1-1

EOC Ref E1-14

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-9 Which statement is correct?
- A) Management accounting uses the cash basis and financial accounting uses the accrual basis to record transactions.
  - B) Management accounting uses the cash basis to record transactions.
  - C) Financial accounting uses the cash basis to record transactions.
  - D) Both management accounting and financial accounting use the accrual basis to record transactions.

Answer: D

Difficulty: 2

LO: 1-1

EOC Ref E1-14

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-10 Which of the following statements is incorrect?
- A) Management uses accounting information to determine the cost of products and services.
  - B) Management uses accounting information to plan and control business operations.
  - C) Management uses accounting information to report the company's financial position and results of operations to external parties.
  - D) Financial accounting is more relevant to use for internal decision making purposes than is management accounting.

Answer: D

Difficulty: 1

LO: 1-1

EOC Ref E1-14

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-11 Which of the following statements about financial accounting is correct?
- A) Financial accounting helps investors make decisions.
  - B) Financial accounting reports do not influence investor behavior.
  - C) Financial provides detailed reports on parts of the company.
  - D) Financial accounting provides help in planning and controlling operations.

Answer: A

Difficulty: 1

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-12 Which of the following statements about managerial accounting is correct?  
A) Managerial accounting reports are audited annually by Certified Public Accountants.  
B) Managerial accounting reports help investors make decisions.  
C) Managerial accounting reports provide detailed information on parts of a company.  
D) Managerial accounting reports must follow Generally Accepted Accounting principles (GAAP).

Answer: C

Difficulty: 1

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-13 Which of the following reports must be audited by certified public accountants?  
A) Annual financial reports  
B) Federal tax returns  
C) State tax returns  
D) Management accounting reports

Answer: A

Difficulty: 1

LO: 1-1

EOC Ref S1-2

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.1-14 Enter the letter of the stakeholder from the table on the line associated with management's primary responsibility to that stakeholder.

A.	Owners	D.	Customers
B.	Creditors	E.	Government
C.	Suppliers	F.	Employees

- \_\_\_\_\_ Generating a profit  
\_\_\_\_\_ Repaying principal plus interest in a timely manner  
\_\_\_\_\_ Providing a safe work environment  
\_\_\_\_\_ Paying taxes timely  
\_\_\_\_\_ Providing quality products/services for a reasonable price in a timely manner

Answer:

- \_\_A\_\_ Generating a profit  
\_\_B\_\_ Repaying principal plus interest in a timely manner  
\_\_F\_\_ Providing a safe work environment  
\_\_E\_\_ Paying taxes timely  
\_\_D\_\_ Providing quality products/services for a reasonable price in a timely manner

Difficulty: 2

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

1.1-15 Differentiate between financial and management accounting, addressing such issues as what reports are generated, when, and for whom.

Answer:

Financial accounting generates the balance sheet, statement of operations, statement of shareholders' equity and the cash flow statement. These are prepared based on historical information and are for external users such as investors, creditors, suppliers, and various governmental agencies. Managerial accounting generates any type of detailed report required by management and is not restricted by GAAP. These are prepared to look at current operations and to plan for the future.

Difficulty: 2

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.1-16 What type of information does management accounting provide and what is the purpose of the information?

Answer:

Management accounting provides financial and nonfinancial information inside the organization to help managers plan, control, and make decisions consistent with the fiduciary role managers have in operating a business. Management accounting provides forward looking information to managers that can be used during the year to make business decisions.

Difficulty: 2

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.1-17 Explain the planning, budgeting and controlling functions of managers.

Answer:

Planning means choosing goals and deciding how to achieve them; for example, a common goal for a company is to increase operating income. To achieve this goal, managers could decide to increase sales prices or to advertise more in order to increase sales volume. The budget is a quantitative expression of a plan that helps managers coordinate and implement the plan. The budget can be used to see the financial impact each decision will have on the operating activities and the resources necessary to increase operating income. Controlling begins after the plan has been implemented. Controlling means evaluating the results of business operations by comparing the actual results to the plan; if actual costs fall below budgeted costs, that is good. If actual costs exceed the budget, managers may need to act to control costs.

Difficulty: 2

LO: 1-1

EOC Ref S1-1

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.2-1 During the past century, many developed economies have shifted their focus from a service economy to a manufacturing economy.
- Answer: False  
Difficulty: 1  
LO: 1-2  
EOC Ref: S1-3  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Global  
AICPA Functional Competencies: Reporting
- 1.2-2 Increased global competition has resulted in many companies moving their operations to other countries to be closer to new markets.
- Answer: True  
Difficulty: 1  
LO: 1-2  
EOC Ref: S1-3  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Global  
AICPA Functional Competencies: Reporting
- 1.2-3 Which of the following is a philosophy of providing customers with superior products and services?  
A) Just-in-time (JIT)  
B) ERP  
C) Supply chain management  
D) Total quality management
- Answer: D  
Difficulty: 2  
LO: 1-2  
EOC Ref S1-3  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.2-4 Which of the following describes a system in which suppliers deliver materials at the time they are needed and finished units are completed when customer orders need to be filled?  
A) Supply chain management  
B) Just-in-time (JIT)  
C) Enterprise resource planning  
D) Total quality management
- Answer: B  
Difficulty: 2  
LO: 1-2  
EOC Ref S1-3  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting

- 1.2-5 What is total quality management?
- A) A philosophy of supplying customers with superior products and services
  - B) An exchange of information with suppliers and customers to create efficient and effective processes
  - C) A software system that integrates a company's functions, departments and data into a single system
  - D) A system in which a company produces what it needs when it needs it

Answer: A

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.2-6 What is the name given to software systems that can integrate all of a company's worldwide functions, departments and data into a single system?
- A) All in One Software
  - B) Enterprise Resource Planning
  - C) Total Integrated Software
  - D) Just-in-time

Answer: B

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.2-7 Match the term with the definition below by entering a letter on the appropriate line.

- |    |                    |    |                          |
|----|--------------------|----|--------------------------|
| A. | ERP                | C. | Supply chain management  |
| B. | Just-in-time (JIT) | D. | Total quality management |

- \_\_\_\_\_ Software systems that can integrate all of a company's worldwide functions, departments, and data into a single system
- \_\_\_\_\_ Exchange of information with suppliers and customers to reduce costs, improve quality, and speed delivery of goods and services from suppliers, through the company, and on to customers
- \_\_\_\_\_ A management philosophy that focuses on producing products as needed by the customer
- \_\_\_\_\_ A philosophy of delighting customers by providing them with superior products and services

Answer:

- \_\_A\_\_ Software systems that can integrate all of a company's worldwide functions, departments, and data into a single system
- \_\_C\_\_ Exchange of information with suppliers and customers to reduce costs, improve quality, and speed delivery of goods and services from suppliers, through the company, and on to customers
- \_\_B\_\_ A management philosophy that focuses on producing products as needed by the customer
- \_\_D\_\_ A philosophy of delighting customers by providing them with superior products and services

Difficulty: 1

LO: 1-2

EOC Ref S1-2

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

1.2-8 On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. Letters may be used more than once or not at all.

- |                         |                          |
|-------------------------|--------------------------|
| A. Shareholders         | E. Management accounting |
| B. Managers             | F. Creditors             |
| C. Budget               | G. Employees             |
| D. Financial accounting | H. Controlling           |

- \_\_\_\_\_ The decision makers inside a company
- \_\_\_\_\_ Provides information on a company's past performance
- \_\_\_\_\_ These reports must follow GAAP
- \_\_\_\_\_ Details the goals of the company and the means to achieve them
- \_\_\_\_\_ The function performed by management when they are evaluating the company's performance compared to the plan

Answer:

- B   The decision makers inside a company
- D   Provides information on a company's past performance
- D   These reports must follow GAAP
- C   Details the goals of the company and the means to achieve them
- H   The function performed by management when they are evaluating the company's performance compared to the plan

Difficulty: 2

LO: 1-2

EOC Ref S1-2

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.2-9 For each of the following, indicate whether the statement reflects management accounting (MA) or financial accounting (FA).

- \_\_\_\_\_ Annual reports must be audited by certified public accountants
- \_\_\_\_\_ Helps investors and creditors make decisions
- \_\_\_\_\_ Helps in planning and controlling operations
- \_\_\_\_\_ Provides information that affects employee behavior
- \_\_\_\_\_ Are prepared using GAAP

Answer:

- FA   Annual reports must be audited by certified public accountants
- FA   Helps investors and creditors make decisions
- MA   Helps in planning and controlling operations
- MA   Provides information that affects employee behavior
- FA   Are prepared using GAAP

Difficulty: 2

LO: 1-2

EOC Ref S1-2

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting



1.2-10 Briefly describe a just-in-time management philosophy.

Answer:

In a just-in-time system, an organization purchases materials and produces products just when they are needed in the production process. Goods are not produced until it is time for them to be shipped to a customer. The goal is to have zero inventory because holding inventory does not add value to the product. Reducing inventory and speeding the production process reduces throughput time which is the time between buying raw materials and selling the finished products.

Manufacturers adopting just-in-time depend on their suppliers to make on time deliveries of excellent quality raw materials. JIT requires close communication with suppliers.

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

1.2-11 Explain what e-commerce and supply-chain management are and how they are used together to provide a competitive advantage to companies.

Answer:

E-commerce is the use of the Internet for everyday operations such as budgeting, planning, selling, and customer service. Every product, option and price that a company offers can be available to its customers via the Internet. It is an important means of supply-chain management, where companies exchange information with suppliers and customers to reduce costs, improve quality, and speed delivery of goods and services from suppliers, through the company itself, and on to customers. Business-to-business software automates ordering, approval, and delivery. Electronic purchases below certain dollar limits do not need to be reviewed and generate little if any paperwork. This saves time and costs.

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

1.2-12 Briefly explain total quality management.

Answer:

Total quality management (TQM) is a management philosophy that promotes the goal of providing customers with superior products and services. Companies strive for continuous improvement in quality and the elimination of defects and waste. Each business function examines its own activities and works to improve performance by setting higher and higher goals. Successful companies build quality into their products and services instead of depending on finding and fixing defects later.

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-1 Period costs, such as direct materials, are expensed during the period that they were incurred.

Answer: False

Difficulty: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-2 A service company's income statement does NOT include cost of goods sold.

Answer: True

Difficulty: 1

LO: 1-3

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-3 Which of the following costs do NOT go directly into the work in process account?

A) Factory overhead

B) Indirect labor

C) Factory janitorial costs

D) The purchase of raw materials

Answer: D

Difficulty: 2

LO: 1-3

EOC Ref E1-17

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-4 Which of the following are period costs?

A) Current assets on the balance sheet

B) Costs incurred and expensed during the accounting period

C) Costs related to the manufacture of products

D) Current liabilities on the balance sheet

Answer: B

Difficulty: 2

LO: 1-3

EOC Ref E1-16

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.3-5 Which of the following is a characteristic of a service company?
- A) It transforms raw materials into finished goods.
  - B) It makes a product.
  - C) It does not have tangible products intended for sale.
  - D) It has a single category of inventory.

Answer: C

Difficulty: 2

LO: 1-3

EOC Ref E1-17

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.3-6 Which of the following is an example of a period cost?
- A) Advertising expense
  - B) Depreciation on factory equipment
  - C) Indirect materials
  - D) Property taxes on plant

Answer: A

Difficulty: 1

LO: 1-3

EOC Ref E1-16

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.3-7 Which of the following could be found on the income statement of a service company?
- A) Rent expense
  - B) Cost of goods manufactured
  - C) Cost of goods sold
  - D) Manufacturing overhead

Answer: A

Difficulty: 1

LO: 1-3

EOC Ref E1-17

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-8

Use the appropriate letter(s) to indicate if the following costs would be found on the income statement of a:

- A. service company.
- B. merchandising company.
- C. manufacturing company.

You may use more than one letter for each answer.

_____	Revenue
_____	Salaries expense
_____	Customer service expense
_____	Cost of goods manufactured
_____	Cost of goods sold

Answer:

__A,B,C__	Revenue
__A,B,C__	Salaries expense
__A,B,C__	Customer service expense
__C__	Cost of goods manufactured
__B,C__	Cost of goods sold

Difficulty: 2

LO: 1-3

EOC Ref E1-17

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-9

On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

- |                             |                              |
|-----------------------------|------------------------------|
| A. Materials inventory      | E. Work in process inventory |
| B. Service companies        | F. Manufacturing companies   |
| C. Merchandise inventory    | G. Merchandise companies     |
| D. Finished goods inventory |                              |

- \_\_\_\_\_ Typically have a single category of inventory
- \_\_\_\_\_ Resell products they previously purchased ready-made from suppliers
- \_\_\_\_\_ Do not have inventory
- \_\_\_\_\_ Produce their own inventory
- \_\_\_\_\_ Transform raw materials into new finished products
- \_\_\_\_\_ Manufacturers' inventory that is ready to be sold
- \_\_\_\_\_ Manufacturers' inventory of partially completed items

Answer:

- G   Typically have a single category of inventory
- G   Resell products they previously purchased ready-made from suppliers
- B   Do not have inventory
- F   Produce their own inventory
- F   Transform raw materials into new finished products
- D   Ready to sell inventory of manufacturers
- E   Partially completed items

Difficulty: 2

LO: 1-3

EOC Ref E1-17

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-10

What is the formula to calculate unit cost for service companies and why is it important?

Answer:

The formula to calculate unit cost for service companies is total service costs divided by total number of services provided. Knowing the cost per service helps the managers make decisions about the fees to charge for each service and which services are profitable.

Difficulty: 1

LO: 1-3

EOC Ref S1-4

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-11 What is a service company and what are some examples of service companies?

Answer:

A service company sells intangible services as opposed to selling a product. Some examples are eBay, H&R Block, TempStaff, etc. (These answers will vary).

Difficulty: 1

LO: 1-3

EOC Ref S1-4

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.3-12 Why don't service firms have inventory costs? What type of costs do they have?

Answer:

Service firms do not have inventory costs because services cannot be produced today and stored up to sell later. They do not have inventory. They only have period costs that are expensed as incurred.

Difficulty: 1

LO: 1-3

EOC Ref S1-4

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.4-1 Which of the following statements is correct?

A) A decrease in finished goods means that cost of goods manufactured is greater than cost of goods sold.

B) A decrease in work in process means that cost of goods sold is greater than cost of goods manufactured.

C) A decrease in raw materials implies that the cost of materials used in production exceeds the cost of the materials purchased.

D) A decrease in work in process means that cost of goods manufactured was less than the manufacturing costs incurred.

Answer: C

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.4-2 Which of the following is an inventory account for a merchandise company?
- A) Work in process inventory
  - B) Manufacturing overhead inventory
  - C) Merchandise inventory
  - D) Finished goods inventory

Answer: C

Difficulty: 1

LO: 1-4

EOC Ref E1-18

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.4-3 Which of the following costs would appear on the income statements for both a merchandiser and a manufacturer?
- A) Direct labor incurred
  - B) Cost of goods manufactured
  - C) Direct materials used
  - D) Operating expenses

Answer: D

Difficulty: 1

LO: 1-4

EOC Ref E1-18

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.4-4 A merchandiser's purchases are equivalent to what for a manufacturer?
- A) Materials inventory
  - B) Cost of goods manufactured
  - C) Work in process inventory
  - D) Cost of goods sold

Answer: B

Difficulty: 1

LO: 1-4

EOC Ref E1-18

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.4-5 The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the cost of goods available for sale for 2009?

- A) \$140,000
- B) \$126,000
- C) \$104,000
- D) \$130,000

Answer: A

Calculations:

$$\begin{aligned}\text{Cost of Goods Available} &= \text{Beg Inv} + \text{Purchases} \\ &= \$ 14,000 + 126,000 \\ &= \$ 140,000\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-5

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



1.4-6

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the cost of goods sold for 2009?

- A) \$104,000
- B) \$124,000
- C) \$130,000
- D) \$140,000

Answer: C

Calculations:

$$\begin{aligned} \text{CGS} &= \text{CGA} - \text{EI} \\ &= \$ 140,000 - \$ 10,000 \\ &= \$ 130,000 \end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-5

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-7

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the gross profit for 2009?

- A) \$120,000
- B) \$130,000
- C) \$140,000
- D) \$136,000

Answer: A

Calculations:

$$\begin{aligned}\text{Gross profit} &= \text{Sales Revenue} - \text{CGS} \\ &= \$ 250,000 - 130,000 \\ &= \$ 120,000\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-5

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-8

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the operating income for 2009?

- A) \$250,000
- B) \$140,000
- C) \$30,000
- D) \$90,000

Answer: C

Calculations:

$$\begin{aligned}\text{Operating Income} &= \text{Gross profit} - \text{Selling \& Adm. Expenses} \\ &= \$ 120,000 - 90,000 \\ &= \$ 30,000\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-9

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the profit margin percentage?

- A) 12%
- B) 56%
- C) 100%
- D) 36%

Answer: A

Calculations:

$$\begin{aligned}\text{Profit margin \%} &= \text{Income} / \text{sale} \times 100\% \\ &= \$ 30,000 / 250,000 \times 100\% \\ &= 12\%\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-10

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the gross profit percentage?

- A) 48%
- B) 56%
- C) 36%
- D) 100%

Answer: A

Calculations:

$$\begin{aligned}\text{Gross Profit \%} &= \text{Gross profit} / \text{Sale} \times 100\% \\ &= \$ 120,000 / 250,000 \\ &= 48\%\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-11

The following information pertains to Bright Toy Company's operating activities for 2009. The company sells light box toys and sold 10,000 units in 2009.

Purchases	\$ 126,000
Selling and Administrative Expenses	90,000
Merchandise inventory, 1/1/2009	14,000
Merchandise inventory, 12/31/2009	10,000
Sales Revenue	250,000

What is the cost per light box sold in 2009?

- A) \$13.00
- B) \$12.40
- C) \$14.00
- D) \$10.40

Answer: A

Calculations:

$$\begin{aligned}\text{Cost per box} &= \text{total CGS} / \# \text{ boxes} \\ &= \$ 130,000 / 10,000 \\ &= \$ 13\end{aligned}$$

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-12

Compute the missing amounts.

	<u>ABC Company</u>	<u>XYZ Company</u>
Sales	\$ 200,000	(D)
Cost of Goods Sold		
Beginning Inventory	(A)	\$60,000
Purchases and Freight-In	\$118,000	(E)
Cost of goods available for sale	(B)	\$180,000
Ending inventory	\$4,000	\$4,000
Cost of goods sold	\$120,000	(F)
Gross Margin	\$80,000	\$224,000
Selling and Administrative Expenses	(C)	\$170,000
Operating Income	\$24,000	(G)

Answer:

- A) \$6,000
- B) \$124,000
- C) \$56,000
- D) \$400,000
- E) \$120,000
- F) \$176,000
- G) \$54,000

Difficulty: 2

LO: 1-4

EOC Ref S1-6

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.4-13

Excellent Company sells accounting textbooks. The following information summarizes Excellent's operating activities for 2009:

Merchandise inventory, January 1, 2009	\$10,000
Merchandise inventory, December 31, 2009	\$7,000
Purchases	\$95,000
Selling and Administrative Expenses	\$65,000
Sales Revenue	\$180,000

Required: Prepare an income statement for the year ended December 31, 2009. Compute the gross profit percentage as well as the profit margin percentage.

Answer:

Excellent Company  
Income Statement  
Year Ended December 31, 2009

Sales revenue		\$180,000	100%
Cost of good sold:			
Beginning inventory	\$ 10,000		
Purchases and freight-in	<u>95,000</u>		
Cost of goods available for sale	105,000		
Ending inventory	<u>7,000</u>		
Cost of good sold:		<u>98,000</u>	<u>54%</u>
Gross profit		\$82,000	46%
Selling and administrative expenses		<u>65,000</u>	<u>36%</u>
Operating income		<u>\$17,000</u>	<u>9%</u>

Difficulty: 2

LO: 1-4

EOC Ref E1-18

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



1.4-14

Best Company sells office supplies. The following information summarizes Best's operating activities for 2009:

Utilities for store	\$6,000
Rent for store	\$8,000
Sales commissions	\$4,500
Purchases of merchandise	\$54,000
Inventory on December 31, 2009	\$20,500
Inventory on January 1, 2009	\$30,000
Sales revenue	\$108,000

Required: Prepare an income statement for Best Company, a merchandiser, for the year ended December 31, 2009.

Answer:

Best Company  
Income Statement  
Year Ended December 31, 2009

Sales revenue		\$108,000
Cost of goods sold:		
Beginning inventory	\$30,000	
Purchases of merchandise	<u>54,000</u>	
Cost of goods available for sale	84,000	
Ending inventory	<u>20,500</u>	
Cost of goods sold:		<u>63,500</u>
Gross profit		\$ 44,500
Operating expenses:		
Utilities expense	\$ 6,000	
Rent expense	8,000	
Sales commissions expense	<u>4,500</u>	<u>18,500</u>
Operating income		<u>\$ 26,000</u>

Difficulty: 2

LO: 1-4

EOC Ref E1-18

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-1

GAAP requires companies to treat product costs such as factory overhead as an asset until the product is sold.

Answer: True

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-2 Cost of goods manufactured includes direct materials, direct labor, and manufacturing overhead.
- Answer: True  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-8  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-3 Manufacturing overhead includes all manufacturing costs such as direct labor and direct materials.
- Answer: False  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-10  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-4 Manufacturing overhead includes indirect costs such as insurance and depreciation on the factory building.
- Answer: True  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-10  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-5 A manufacturer's inventory consists of raw materials, work in process, and finished goods.
- Answer: True  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-11  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-6 An increase in finished goods inventory implies that cost of goods sold was greater than cost of goods manufactured.
- Answer: False  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-11  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting

- 1.5-7 Selling and administrative expenses are subtracted from cost of goods sold to obtain operating income.
- Answer: True  
Difficulty: 1  
LO: 1-5  
EOC Ref S1-11  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-8 An increase in the work in process account during the year means that cost of goods manufactured was greater than the manufacturing costs incurred during the year.
- Answer: False  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-11  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-9 The costs of indirect materials cannot easily be traced to the manufactured product and is therefore a component of manufacturing overhead.
- Answer: True  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-9  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting
- 1.5-10 The total manufacturing costs to account for during the year minus the beginning work in process equals cost of goods manufactured.
- Answer: False  
Difficulty: 2  
LO: 1-5  
EOC Ref S1-11  
AACSB: Reflective Thinking  
AICPA Business Perspective Competencies: Critical Thinking  
AICPA Functional Competencies: Reporting

- 1.5-11 Which of the following statements does NOT describe today's business environment?
- A) The business environment is shifting toward a service economy.
  - B) Global competition requires businesses to adjust their business strategies.
  - C) E-commerce has allowed business managers the opportunity to slow down their manufacturing and delivery times.
  - D) Enterprise resource planning systems have emerged to assist business manager with respect to integrating their worldwide functions.

Answer: C

Difficulty: 2

LO: 1-2

EOC Ref S1-3

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-12 A service company's:
- A) expenses are all period costs.
  - B) expenses are all product costs.
  - C) income statement includes gross margin.
  - D) balance sheet includes finished goods inventory.

Answer: A

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-13 A merchandising company's:
- A) expenses include both period costs and product costs.
  - B) expenses include only product costs.
  - C) expenses include only period costs.
  - D) income statement doesn't include gross margin.

Answer: A

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-14 Which of the following is NOT a part of manufacturing overhead?  
A) Indirect materials  
B) Indirect labor  
C) Factory insurance  
D) Depreciation on delivery vehicles

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-15 Which of the following is NOT a product cost?  
A) Indirect labor  
B) Factory overhead  
C) Indirect materials  
D) Depreciation of corporate headquarters

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-16 Period costs do NOT include which of the following?  
A) Sales commissions  
B) Factory janitorial costs  
C) Insurance on delivery vehicles  
D) Advertising costs

Answer: B

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-17 Inventory accounts for a manufacturer include which of the following?
- A) Materials, work in process, and finished goods
  - B) Work in process, direct labor, and finished goods
  - C) Merchandise, materials, and finished goods
  - D) Work in process, materials, and manufacturing overhead

Answer: A

Difficulty: 1

LO: 1-5

EOC Ref S1-11

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-18 Goods that are partially completed by a manufacturer are referred to as:
- A) Materials inventory.
  - B) Finished goods inventory.
  - C) Merchandise inventory.
  - D) Work in process inventory.

Answer: D

Difficulty: 1

LO: 1-5

EOC Ref S1-11

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-19 Which of the following is an example of direct labor?
- A) Wages of assembly line personnel
  - B) Salary of vice president of production
  - C) Wages of factory security
  - D) Salary of production manager

Answer: A

Difficulty: 1

LO: 1-5

EOC Ref S1-9

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-20 Which of the following best defines direct materials?  
A) Used to determine total inventoriable product costs  
B) Cannot be separately and conveniently traced through the manufacturing process to finished goods  
C) Are not part of the finished product  
D) Used to determine total manufacturing overhead

Answer: A

Difficulty: 2

LO: 1-5

EOC Ref S1-8

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-21 Manufacturing overhead includes which of the following?  
A) Indirect labor and indirect materials  
B) Indirect materials and direct materials  
C) Direct materials and direct labor  
D) Factory rent and direct labor

Answer: A

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-22 All of the following are examples of manufacturing overhead except for which of the following?  
A) Utilities incurred in the factory  
B) Insurance expired on factory equipment  
C) Wages of assembly line workers  
D) Indirect materials

Answer: C

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-23

Wright Company reports production costs for 2009 as follows:

Direct materials used	\$375,000
Direct labor incurred	\$250,000
Manufacturing overhead incurred	\$400,000
Operating expenses	\$145,000

How much are Wright Company's period costs for 2009?

- A) \$250,000
- B) \$575,000
- C) \$145,000
- D) \$375,000

Answer: C

Calculations:

Period costs = operating expenses = \$ 145,000

Difficulty: 2

LO: 1-5

EOC Ref S1-12

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-24

Wright Company reports production costs for 2009 as follows:

Direct materials used	\$375,000
Direct labor incurred	\$250,000
Manufacturing overhead incurred	\$400,000
Operating expenses	\$145,000

How much are Wright Company's inventoriable product costs for 2009?

- A) \$925,000
- B) \$605,000
- C) \$975,000
- D) \$1,025,000

Answer: D

Calculations:

Inventoriable product costs = DM + DL + MOH  
= \$ 375,000 + 250,000 + 400,000  
= \$ 1,025,000

Difficulty: 1

LO: 1-5

EOC Ref S1-12

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



1.5-25

Which of the following equals cost of goods manufactured?

- A) Cost of goods sold plus beginning work in process inventory less ending work in process inventory
- B) Total manufacturing costs plus ending materials inventory less beginning materials inventory
- C) Total manufacturing costs plus beginning work in process inventory less ending work in process inventory
- D) Total manufacturing costs plus ending work in process inventory less beginning work in process inventory

Answer: C

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-26

Beginning work in process is equal to:

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

Answer: D

Difficulty: 3

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-27

Fitness Company reports the following data for 2009, its first year of operations:

Cost of goods manufactured	\$440,000
Work in process inventory, Dec. 31, 2009	130,000
Direct materials used	115,000
Manufacturing overhead incurred	160,000
Finished goods inventory, Dec. 31, 2009	75,000

What are the total manufacturing costs to be accounted for?

- A) \$300,000
- B) \$190,000
- C) \$160,000
- D) \$570,000

Answer: D

Calculations:

$$\begin{aligned}\text{Total manufacturing costs (TMC)} &= \text{CGM} + \text{WIP, end.} - \text{WIP, beg.} \\ &= \$440,000 + 130,000 - 0 \\ &= \$570,000\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-28

Fitness Company reports the following data for 2009, its first year of operations:

Cost of goods manufactured	\$440,000
Work in process inventory, Dec. 31, 2009	130,000
Direct materials used	115,000
Manufacturing overhead incurred	160,000
Finished goods inventory, Dec. 31, 2009	75,000

What is cost of goods sold for 2009?

- A) \$365,000
- B) \$480,000
- C) \$340,000
- D) \$240,000

Answer: A

Calculations:

$$\begin{aligned} \text{CGS} &= \text{FG, beg.} + \text{CGM} - \text{FG, end.} \\ &= 0 + \$440,000 - 75,000 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-29

Redbird Company reports the following data for 2009:

Cost of goods manufactured	\$69,500
Direct materials used	27,000
Direct labor incurred	25,000
Work in process inventory, Jan. 1, 2009	11,000

Manufacturing overhead is 75% of the cost of direct labor. What is work in process inventory on Dec. 31, 2009?

- A) \$13,500
- B) \$10,200
- C) \$12,250
- D) \$22,500

Answer: C

Calculations:

$$\begin{aligned} \text{WIP, end.} &= \text{WIP, beg.} + (\text{DM} + \text{DL} + \text{MOH}) - \text{CGM} \\ &= 11,000 + (27,000 + 25,000 + 0.75 \times 25,000) - 69,500 \\ &= 11,000 + 70,750 - 69,500 \\ &= 12,250 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-30

At the beginning of 2008, the Taylor Company's work in process inventory account had a balance of \$30,000. During 2008, \$68,000 of direct materials were used in production, and \$66,000 of direct labor costs were incurred. Manufacturing overhead in 2008 amounted to \$90,000. The cost of goods manufactured was \$220,000 in 2008. What is the balance in work in process inventory on December 31, 2008?

- A) \$24,000
- B) \$66,000
- C) \$6,000
- D) \$34,000

Answer: D

Calculations:

$$\begin{aligned}\text{WIP End} &= \text{WIP beg} + (\text{DM} + \text{DL} + \text{MOH}) - \text{CGM} \\ &= 30,000 + (68,000 + 66,000 + 90,000) - 220,000 \\ &= 30,000 + 224,000 - 220,000 \\ &= 34,000\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref P1-25A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

Selected data for Young Company for 2009 is presented below:

Direct labor incurred	\$30,000
Indirect labor incurred	21,000
Factory depreciation	5,000
Factory utilities	7,000
Indirect materials used	2,000
Direct materials used	12,000
Property taxes on factory building	3,000
Sales commissions	8,000

What is the manufacturing overhead for 2009?

- A) \$47,000
- B) \$50,000
- C) \$38,000
- D) \$46,000

Answer: C

Calculations:

$$\begin{aligned}
 \text{MOH} &= \text{Ind. Labor} + \text{factory Depreciation} + \text{Factory utilities} + \text{indirect materials} + \text{property taxes on bldg} \\
 &= \$ 21,000 + 5,000 + 7,000 + 2,000 + 3,000 \\
 &= \$ 38,000
 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref P1-25A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-32

Village Company's selected cost data for 2009 are shown below:

Cost of goods manufactured	\$145,200
Work in process inventory, Jan. 1, 2009	18,500
Work in process inventory, Dec. 31, 2009	22,500
Direct materials used	15,800

What are total manufacturing costs incurred by Village Company in 2009?

- A) \$149,200
- B) \$158,300
- C) \$139,800
- D) \$117,100

Answer: A

Calculations:

$$\begin{aligned} \text{TMC} &= \text{CGM} + \text{WIP, end} - \text{WIP, beg} \\ &= \$ 145,200 + 22,500 - 18,500 \\ &= \$ 149,500 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref P1-25A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

Village Company's selected cost data for 2009 are shown below:

Cost of goods manufactured	\$145,200
Work in process inventory, Jan. 1, 2009	18,500
Work in process inventory, Dec. 31, 2009	22,500
Direct materials used	15,800

Assuming direct labor is 60% of manufacturing overhead, what is the amount of direct labor incurred by Village Company in 2009?

- A) \$50,025
- B) \$62,550
- C) \$41,700
- D) \$83,400

Answer: A

Calculations:

$$\text{TMC} = \text{DM} + \text{DL} + \text{MOH}$$

$$\$149,200 = 15,800 + 0.6 \text{ MOH} + \text{MOH}$$

$$1.6 \text{ MOH} = 133,400$$

$$\text{MOH} = \$83,375$$

$$\begin{aligned} \text{DL} &= 0.6 \times 83,375 \\ &= \$50,025 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref P1-25A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-34

Harrison Company reports the following cost information for August:

Cost of goods manufactured	\$135,800
Finished goods inventory, Aug. 1	30,200
Finished goods inventory, Aug. 31	35,300
Work in process inventory, Aug. 1	22,500
Work in process inventory, Aug. 31	18,500
Direct materials used	25,300

Direct labor incurred in August amounted to 150% of manufacturing overhead in August.

What is cost of goods sold for August?

- A) \$154,500
- B) \$125,100
- C) \$130,700
- D) \$139,800

Answer: C

Calculations:

$$\begin{aligned} \text{CGS} &= \text{FG, beg.} + \text{CGM} - \text{FG, end} \\ &= 30,200 + 135,800 - 35,300 \\ &= 130,700 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



Harrison Company reports the following cost information for August:

Cost of goods manufactured	\$135,800
Finished goods inventory, Aug. 1	30,200
Finished goods inventory, Aug. 31	35,300
Work in process inventory, Aug. 1	22,500
Work in process inventory, Aug. 31	18,500
Direct materials used	25,300

Direct labor incurred in August amounted to 150% of manufacturing overhead in August.

What is the amount of direct labor incurred by Harrison Company in August?

- A) \$131,800
- B) \$61,944
- C) \$49,556
- D) \$63,900

Answer: D

Calculations:

$$\begin{aligned} \text{TMC} &= \text{CGM} + \text{WIP, end} - \text{WIP, beg} \\ &= 135,800 + 18,500 - 22,500 \\ &= 131,800 \end{aligned}$$

$$\begin{aligned} \text{TMC} &= \text{DM} + \text{DL} + \text{MOH} \\ 131,800 &= 25,300 + 1.5 \text{ MOH} + \text{MOH} \\ 2.5 \text{ MOH} &= 106,500 \\ \text{MOH} &= 42,600 \\ \text{DL} &= 1.5 \times 42,600 \\ &= \$ 63,900 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-36

A company used \$35,000 of direct materials, incurred \$73,000 in direct labor cost, and \$114,000 in manufacturing overhead costs during the period. If beginning and ending work in process inventories were \$28,000 and \$21,000 respectively. What is the cost of goods manufactured?

- A) \$250,000
- B) \$229,000
- C) \$215,000
- D) \$222,000

Answer: B

Calculations:

$$\begin{aligned} \text{CGM} &= \text{WIP, beg.} + \text{TMC} - \text{WIP, end} \\ &= 28,000 + (35,000 + 73,000 + 114,000) - 21,000 \\ &= 229,000 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-37

Given the following information, determine the cost of goods manufactured and the cost of goods sold for 2009.

Direct labor incurred	\$126,000
Manufacturing overhead incurred	359,000
Direct materials used	1,000
Finished goods inventory, 1/1/2009	395,000
Finished goods inventory, 12/31/2009	442,000
Work in process inventory, 1/1/2009	193,000
Work in process inventory, 12/31/2009	218,000

- A) \$781,000 and \$837,000
- B) \$461,000 and \$414,000
- C) \$731,000 and \$684,000
- D) \$765,000 and \$709,000

Answer: B

Calculations:

$$\begin{aligned} \text{CGM} &= \text{WIP beg} + (\text{DM} + \text{DL} + \text{MOH}) - \text{WIP end} \\ &= 193,000 + (126,000 + 359,000 + 1,000) - 218,000 \\ &= 461,000 \end{aligned}$$

$$\begin{aligned} \text{CGS} &= \text{FG beg} + \text{CGM} - \text{FG end} \\ &= 395,000 + 461,000 - 442,000 \\ &= 414,000 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

Given the following information, calculate the direct materials purchased in 2009.

Materials inventory, 1/1/2009	\$43,000
Materials inventory, 12/31/2009	24,000
Work in process inventory, 1/1/09	53,000
Work in process inventory, 12/31/09	61,000
Finished goods inventory, 1/1/2009	84,000
Finished goods inventory, 12/31/2009	97,000
Cost of goods sold	395,000
Cost of goods manufactured	408,000
Direct labor	156,000
Manufacturing overhead costs	180,000

- A) \$67,000
- B) \$85,000
- C) \$61,000
- D) \$80,000

Answer: C

$$\begin{aligned}
 \text{TMC} &= \text{DM used} + \text{DL} + \text{MOH} = \text{CGM} + \text{WIP end} - \text{WIP beg} \\
 \text{DM used} &= \text{CGM} + \text{WIP end} - \text{WIP beg} - \text{DL} - \text{MOH} \\
 &= 408,000 + 61,000 - 53,000 - 156,000 - 180,000 \\
 &= 80,000 \\
 \text{DM purchased} &= \text{DM used} + \text{DM end} - \text{DM beg} \\
 &= 80,000 + 24,000 - 43,000 \\
 &= 61,000
 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

- 1.5-39 Cost of goods manufactured during 2009 was \$240; work in process inventory on December 31, 2009 was \$50. Work in process inventory during 2009 decreased 60%. What are total manufacturing costs incurred during 2009?
- A) \$290
  - B) \$190
  - C) \$165
  - D) \$315

Answer: C

Calculations:

$$\begin{aligned} \text{TMC} &= \text{CGM} + \text{WIP end} - \text{WIP beg} \\ &= 240 + 50 - 125 \\ &= 165 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

- 1.5-40 The cost of goods sold for Frye Manufacturing in 2009 was \$233,000. The January 1, 2009 finished goods inventory balance was \$31,600, and the December 31, 2009 finished goods inventory balance was \$24,200. What was cost of goods manufactured during 2009?
- A) \$288,800
  - B) \$233,000
  - C) \$225,600
  - D) \$240,400

Answer: C

Calculations:

$$\begin{aligned} \text{CGM} &= \text{CGS} + \text{FG end} - \text{FG beg} \\ &= 233000 + 24200 - 31600 \\ &= 225,600 \end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

- 1.5-41 Which of the following would probably be considered an indirect material rather than a direct material?  
A) Glue  
B) Lumber  
C) Fabric  
D) Steel

Answer: A

Difficulty: 2

LO: 1-5

EOC Ref S1-9

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-42 Manufacturing overhead should be classified as which of the following?  
A) Product cost  
B) Period cost  
C) Indirect cost  
D) Both A and C

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-9

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-43 Rent expense incurred on a factory building would be treated as what type(s) of cost?  
A) Indirect cost  
B) Period cost  
C) Product cost  
D) Both A and C

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-9

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-44

Robinson Company has provided the following information:

- Raw materials inventory increased \$15,000.
- Work in process inventory decreased \$29,000.
- Finished goods inventory decreased \$47,000.
- Sales were \$500,000.
- The gross profit ratio was 52.2%.

How much was Robinson's cost of goods manufactured?

- A) \$268,000
- B) \$192,000
- C) \$286,000
- D) \$239,000

Answer: B

Calculations:

$$\begin{aligned} \text{CGS} &= \text{Sale} \times \text{CGS \%} \\ &= 500000 \times (100 - 52.2)\% = 239,000 \end{aligned}$$

$$\begin{aligned} \text{CGM} &= \text{CGS} - \text{FG decrease} \\ &= 239,000 - 47,000 \\ &= 192,000 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref P1-27A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-45

Robinson Company has provided the following information:

- Raw materials inventory increased \$15,000.
- Work in process inventory decreased \$29,000.
- Finished goods inventory decreased \$47,000.
- Sales were \$500,000.
- The gross profit ratio was 52.2%.

The manufacturing costs incurred by Robinson during the period were how much?

- A) \$221,000
- B) \$192,000
- C) \$163,000
- D) \$239,000

Answer: C

Calculations:

$$\begin{aligned} \text{TMC} &= \text{CGM} + \text{WIP end} - \text{WIP beg} \\ &= 192,000 - \text{WIP decrease of } 29,000 \\ &= 163,000 \end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref P1-27A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-46

Savard Corporation reported the following:

- Raw material purchases totaling \$100,000.
- Raw material inventory increased \$5,000.
- Direct labor costs incurred totaled \$150,000.
- Total factory overhead was \$225,000.
- Work in process increased \$20,000.
- Indirect labor was \$7,000.
- Finished goods increased \$40,000.
- Sales salaries were \$75,000.

How much was Savard's cost of goods manufactured?

- A) \$450,000
- B) \$490,000
- C) \$457,000
- D) \$497,000

Answer: A

Calculations:

$$\begin{aligned}\text{Cgm} &= \text{TMC} - \text{WIP increase} \\ &= (\text{RM purchase} - \text{RM increase} + \text{DL} + \text{MOH}) - \text{WIP increase} \\ &= (100,000 - 5,000 + 150,000 + 225,000) - 20,000 \\ &= 450,000\end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref P1-27A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



1.5-47

Savard Corporation reported the following:

- Raw material purchases totaling \$100,000.
- Raw material inventory increased \$5,000.
- Direct labor costs incurred totaled \$150,000.
- Total factory overhead was \$225,000.
- Work in process increased \$20,000.
- Indirect labor was \$7,000.
- Finished goods increased \$40,000.
- Sales salaries were \$75,000.

How much was Savard's cost of goods sold?

- A) \$410,000
- B) \$450,000
- C) \$407,000
- D) \$457,000

Answer: A

Calculations:

$$\begin{aligned}\text{CGS} &= \text{CGM} - \text{FG increase} \\ &= \$450,000 - 40,000 \\ &= \$410,000\end{aligned}$$

Difficulty: 3

LO: 1-5

EOC Ref P1-27A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-48

Which of the following is NOT a period cost?

- A) Sales commissions
- B) CEO's salary
- C) Delivery van depreciation
- D) Factory janitorial costs

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-49 Raw materials are expensed when:
- A) they are purchased.
  - B) they are put into the production process.
  - C) the finished product comes out of cost of goods manufactured.
  - D) the finished product is sold.

Answer: D

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-50 Which of the following properly describes the accounting for indirect labor costs?
- A) Indirect labor costs are product costs and are expensed as incurred.
  - B) Indirect labor costs are period costs and are expensed as incurred.
  - C) Indirect labor costs are product costs and are expensed when the manufactured product is sold.
  - D) Indirect labor costs are period costs and are expensed when the manufactured product is sold.

Answer: C

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-51 Which of the following properly describes the accounting for factory depreciation?
- A) Factory depreciation is a product cost and is expensed as incurred.
  - B) Factory depreciation is a period cost and is expensed as incurred.
  - C) Factory depreciation is a product cost and is expensed when the manufactured product is sold.
  - D) Factory depreciation is a period cost and is expensed when the manufactured product is sold.

Answer: C

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-52 Which of the following properly describes the accounting for corporate headquarters' property taxes?
- A) The property taxes are product costs and are expensed as incurred.
  - B) The property taxes are period costs and are expensed as incurred.
  - C) The property taxes are product costs and are expensed when the manufactured product is sold.
  - D) The property taxes are period costs and are expensed when the manufactured product is sold.

Answer: B

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.5-53 Which of the following properly describes the accounting for advertising costs?
- A) Advertising costs are product costs and are expensed as incurred.
  - B) Advertising costs are period costs and are expensed as incurred.
  - C) Advertising costs are product costs and are expensed when the manufactured product is sold.
  - D) Advertising costs are period costs and are expensed when the manufactured product is sold.

Answer: B

Difficulty: 2

LO: 1-5

EOC Ref S1-7

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-54

The following information has been provided by LeMaire Company:

- Direct labor: \$50,000
- Direct materials used: \$20,000
- Direct materials purchased: \$27,000
- Cost of goods manufactured: \$100,000
- Ending work in process: \$16,000
- Corporate headquarters' property taxes: \$6,000
- Manufacturing overhead: \$39,000

The beginning work in process was:

- A) \$23,000.
- B) \$7,000.
- C) \$9,000.
- D) \$1,000.

Answer: B

Calculations:

$$\begin{aligned}\text{WIP beg} &= \text{WIP end} + \text{CGM} - (\text{DM used} + \text{DL} + \text{MOH}) \\ &= 16,000 + 100,000 - (20,000 + 50,000 + 39,000) \\ &= 7,000\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-19

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-55

The following information was obtained from Sizzler Company:

- Advertising costs: \$7,900
- Indirect labor: \$9,000
- Direct Labor: \$31,000
- Indirect materials: \$7,200
- Direct materials: \$47,000
- Factory utilities: \$3,000
- Factory supplies: \$700
- Factory janitorial costs: \$1,900
- Manufacturing equipment depreciation: \$1,600
- Delivery vehicle depreciation: \$790
- Administrative wages and salaries: \$19,000

How much were Sizzler's period costs?

- A) \$27,690
- B) \$7,900
- C) \$19,790
- D) \$19,000

Answer: A

Calculations:

$$\begin{aligned}\text{Total period costs} &= \text{advertising costs} + \text{delivery vehicle depreciation} + \text{administrative wages} \\ &= 7,900 + 790 + 19,000 \\ &= 27,690\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-19

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-56

The following information was obtained from Sizzler Company:

- Advertising costs: \$7,900
- Indirect labor: \$9,000
- Direct Labor: \$31,000
- Indirect materials: \$7,200
- Direct materials: \$47,000
- Factory utilities: \$3,000
- Factory supplies: \$700
- Factory janitorial costs: \$1,900
- Manufacturing equipment depreciation: \$1,600
- Delivery vehicle depreciation: \$790
- Administrative wages and salaries: \$19,000

How much were Sizzler's product costs?

- A) \$102,190
- B) \$99,500
- C) \$129,090
- D) \$101,400

Answer: D

Calculations:

$$\begin{aligned}\text{Product costs} &= 9,000 + 31,000 + 7,200 + 47,000 + 3,000 + 700 + 1,900 + 1,600 \\ &= 101,400\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-19

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-57

The following information was obtained from Sizzler Company:

- Advertising costs: \$7,900
- Indirect labor: \$9,000
- Direct Labor: \$31,000
- Indirect materials: \$7,200
- Direct materials: \$47,000
- Factory utilities: \$3,000
- Factory supplies: \$700
- Factory janitorial costs: \$1,900
- Manufacturing equipment depreciation: \$1,600
- Delivery vehicle depreciation: \$790
- Administrative wages and salaries: \$19,000

How much was Sizzler's factory overhead?

- A) \$24,190
- B) \$1,600
- C) \$23,400
- D) \$3,600

Answer: C

Calculations:

$$\begin{aligned}\text{Factory OH} &= \text{IDL} + \text{IDM} + \text{factory Utilities} + \text{factory supplies} + \text{factory janitorial costs} + \text{manufacturing} \\ &\text{equipment depreciation} \\ &= 9,000 + 7,200 + 3,000 + 700 + 1,900 + 1,600 \\ &= 23,400\end{aligned}$$

Difficulty: 2

LO: 1-5

EOC Ref E1-19

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-58

Match the following terms with the examples given below for a publishing company. Terms may be used more than once.

- A. Direct materials
- B. Indirect materials
- C. Indirect labor
- D. Direct labor
- E. Other manufacturing costs

- \_\_\_\_\_ Depreciation on equipment
- \_\_\_\_\_ Glue for book bindings
- \_\_\_\_\_ Property taxes on manufacturing plant
- \_\_\_\_\_ Book covers
- \_\_\_\_\_ Machine operators' wages
- \_\_\_\_\_ Plant supervisor's salary

Answer:

- E   Depreciation on equipment
- B   Glue for book bindings
- E   Property taxes on manufacturing plant
- A   Book covers
- D   Machine operators' wages
- C   Plant supervisor's salary

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting



1.5-59

Indicate whether each of the following costs is 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) \_\_\_\_\_ Store supplies used
- M) \_\_\_\_\_ Plant insurance expired

Answer:

- A) product
- B) product
- C) period
- D) product
- E) product
- F) period
- G) product
- H) period
- I) product
- J) product
- K) product
- L) period
- M) product

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-60

Use the correct number to designate each item below.

1. direct materials
  2. selling and general expenses
  3. manufacturing overhead
  4. direct labor
- 
- A) \_\_\_\_\_ Rent expense on factory building
  - B) \_\_\_\_\_ Sales supplies used
  - C) \_\_\_\_\_ Factory supplies used
  - D) \_\_\_\_\_ Indirect materials used
  - E) \_\_\_\_\_ Wages of assembly line personnel
  - F) \_\_\_\_\_ Cost of primary material used to make product
  - G) \_\_\_\_\_ Depreciation on office equipment
  - H) \_\_\_\_\_ Rent on office facilities
  - I) \_\_\_\_\_ Insurance expired on factory equipment
  - J) \_\_\_\_\_ Utilities incurred in the office
  - K) \_\_\_\_\_ Advertising expense
  - L) \_\_\_\_\_ Taxes paid on factory building

Answer:

- A) 3
- B) 2
- C) 3
- D) 3
- E) 4
- F) 1
- G) 2
- H) 2
- I) 3
- J) 2
- K) 2
- L) 3

Difficulty: 2

LO: 1-5

EOC Ref S1-10

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-61

Differentiate between:

- A) direct materials versus indirect materials.
- B) direct labor versus indirect labor.

Answer:

Student responses will vary but should include the following points:

- A) Direct materials must become a physical part of the finished product and their costs must be 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 manufacturing overhead. Examples include thread, glue, snaps, etc.
- 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 manufacturing overhead. Examples include forklift operators, janitors, and plant managers.

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-62

South State Company used \$71,000 of direct materials and incurred \$37,000 of direct labor costs during 2009. 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.

Required: Prepare a schedule of cost of goods manufactured for South State Company for the year ended December 31, 2009.

Answer:

South State Company  
Schedule of Cost of Goods Manufactured  
For the Year Ended December 31, 20X6

Beginning work in process inventory			\$ 5,500
Add:			
Direct materials used		\$71,000	
Direct labor		37,000	
Manufacturing 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 during the year			<u>132,200</u>
Total manufacturing costs to account for			137,700
Less: Ending work in process inventory			<u>(7500)</u>
Cost of goods manufactured			<u>\$130,200</u>

Difficulty: 2

LO: 1-5

EOC Ref E1-21

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-63

The following information is available for the Petree Corporation for 2009:

- Materials inventory decreased \$4,000 during 2009.
- Materials inventory on December 31, 2009, was 50% of materials inventory on January 1, 2009.
- Beginning work in process inventory was \$145,000.
- Ending finished goods inventory was \$65,000.
- Purchases of direct materials were \$150,000.
- Direct materials used were 2.5 times the cost of direct labor.
- Manufacturing overhead was 50% of the cost of direct labor.
- Total manufacturing costs incurred during the period were \$246,400; they were 80% of cost of goods manufactured and \$156,000 less than cost of goods sold.

Compute:

- a) finished goods inventory on January 1, 2009
- b) work in process inventory on December 31, 2009
- c) direct labor incurred
- d) manufacturing overhead incurred
- e) direct materials used
- f) materials inventory on January 1, 2009
- g) materials inventory on December 31, 2009

Note to students: The solutions to this problem are not necessarily calculated in alphabetical order.

Answer:

- 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)  $\$154,000 / 2.5 = \$61,600$  [see (e) below]
- d)  $\$61,600 \times .5 = \$30,800$
- e)  $\$8,000 + \$150,000 - \$4,000 = \$154,000$
- f)  $X = \text{January 1, 2009 materials inventory}$   
 $\$4,000 = .5X$   
 $X = \$8,000$
- g)  $\$8,000 - \$4,000 = \$4,000$

Difficulty: 3

LO: 1-5

EOC Ref E1-20

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

Saratoga Manufacturing Company had the following account balances for 2009:

	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 2009.

Cost of goods sold was 68% of sales.

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

Direct materials purchased amounted to \$90,000.

Compute:

- sales revenue (all sales were on account)
- cost of goods sold
- cost of goods manufactured
- direct labor incurred
- direct materials used
- manufacturing overhead incurred

Note to students: The solutions to this problem are not necessarily calculated in alphabetical order.

Answer:

- $\$33,000 + \$625,000 - \$27,000 = \$631,000$
- $\$631,000 \times .68 = \$429,080$
- $\$15,000 + \$429,080 - \$3,000 = \$441,080$
- $\$441,080 + \$48,000 - \$70,200 = \$418,880$  total manufacturing costs  
 $\$418,880 - \$106,500 = \$312,380$   
 $\$312,380 = \text{manufacturing overhead} + \text{direct labor}$   
 Let  $X = \text{direct labor}$   
 $3X + X = \$312,380$   
 $4X = \$312,380$   
 $X = \$78,095$
- $\$22,500 + \$90,000 - \$6,000 = \$106,500$
- $\$78,095 \times 3 = \$234,285$

Difficulty: 3

LO: 1-5

EOC Ref P1-25A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-65

Huff Company has provided the following information:

Materials inventory, 1/1/2009	\$83,000
Materials inventory, 12/31/2009	64,000
Work in process inventory, 1/1/09	93,000
Work in process inventory, 12/31/09	101,000
Finished goods inventory, 1/1/2009	124,000
Finished goods inventory, 12/31/2009	137,000
Cost of goods sold	435,000
Direct labor	196,000
Manufacturing overhead costs	220,000

What was the cost of the direct materials used in production during 2009?

Calculations:

Beginning work in process + Direct materials used + Direct labor + Manufacturing overhead  
- Cost of goods manufactured = Ending work in process

\$93,000 + Direct materials used + \$196,000 + 220,000 - \$448,000\* = \$101,000

Direct materials used = \$40,000

Cost of goods manufactured = Cost of goods sold + the change in finished goods inventory

\*\$435,000 + \$13,000

Difficulty: 3

LO: 1-5

EOC Ref S1-8

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-66

Shaw Company has provided the following information:

Materials inventory, 1/1/2009	\$123,000
Materials inventory, 12/31/2009	104,000
Work in process inventory, 1/1/09	133,000
Work in process inventory, 12/31/09	141,000
Finished goods inventory, 1/1/2009	164,000
Finished goods inventory, 12/31/2009	177,000
Cost of goods manufactured	488,000
Direct labor	236,000
Manufacturing overhead costs	160,000

What was the cost of goods sold for 2009?

Calculations:

Cost of goods sold = Cost of goods manufactured – the change in the finished goods account

Cost of goods sold = \$488,000 - (\$177,000 - 164,000)

Cost of goods sold = \$475,000

Difficulty: 2

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-67

Yankee Corporation reported the following:

- Raw material purchases totaling \$110,000.
- Raw material inventory increased \$15,000.
- Direct labor costs incurred totaled \$120,000.
- Total factory overhead was \$195,000.
- Work in process increased \$30,000.
- Indirect labor was \$17,000.
- Finished goods increased \$30,000.
- Sales salaries were \$95,000.

How much was Yankee's cost of goods manufactured?

Calculations:

Cost of goods manufactured = Direct materials used + Direct labor + Factory overhead – the change in work in process

Cost of goods manufactured = (\$110,000 - 15,000) + \$120,000 + \$195,000 - \$30,000

Cost of goods manufactured = \$380,000

Difficulty: 3

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-68

Yankee Corporation reported the following:

- Raw material purchases totaling \$110,000.
- Raw material inventory increased \$15,000.
- Direct labor costs incurred totaled \$120,000.
- Total factory overhead was \$195,000.
- Work in process increased \$30,000.
- Indirect labor was \$17,000.
- Finished goods increased \$50,000.
- Sales salaries were \$95,000.

How much was Yankee's cost of goods sold?

Calculations:

Cost of goods manufactured = Direct materials used + Direct labor + Factory overhead – the change in work in process

Cost of goods manufactured = (\$110,000 - 15,000) + \$120,000 + \$195,000 - \$30,000

Cost of goods manufactured = \$380,000

Cost of goods sold = Cost of goods manufactured – the change in finished goods

Cost of goods sold = \$380,000 - \$50,000

Cost of goods sold = \$330,000

Difficulty: 3

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting



1.5-69

Young Company has provided the following information:

- Raw materials inventory increased \$25,000.
- Work in process inventory decreased \$39,000.
- Finished goods inventory decreased \$57,000.
- Sales were \$700,000.
- The gross profit ratio was 45%.

How much was Young's cost of goods manufactured?

Calculations:

Cost of goods sold = Sales – Gross profit

Cost of goods sold = \$700,000 - \$315,000

Cost of goods sold = \$385,000

Cost of goods manufactured = Cost of goods sold + the change in finished goods inventory

Cost of goods manufactured = \$385,000 - \$57,000

Cost of goods manufactured = \$328,000

Difficulty: 3

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-70

Young Company has provided the following information:

- Raw materials inventory increased \$25,000.
- Work in process inventory decreased \$39,000.
- Finished goods inventory decreased \$57,000.
- Sales were \$700,000.
- The gross profit ratio was 45%.

Determine the manufacturing costs incurred by Young during the period?

Calculations:

Cost of goods sold = Sales – Gross profit

Cost of goods sold = \$700,000 - \$315,000

Cost of goods sold = \$385,000

Cost of goods manufactured = Cost of goods sold + the change in finished goods inventory

Cost of goods manufactured = \$385,000 - \$57,000

Cost of goods manufactured = \$328,000

Manufacturing costs incurred during the period = Cost of goods manufactured + the change in work in process

Inventory

Manufacturing costs incurred = \$328,000 - \$39,000

Manufacturing costs incurred = \$289,000

Difficulty: 3

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-71 The following information has been provided by Buffalo Company:

- Direct labor: \$100,000
- Direct materials used: \$40,000
- Direct materials purchased: \$67,000
- Cost of goods manufactured: \$199,000
- Ending work in process: \$46,000
- Corporate headquarters' property taxes: \$6,000
- Manufacturing overhead: \$79,000

How much was Buffalo's beginning work in process?

Calculations:

Cost of goods manufactured = Direct materials used + Direct labor + Factory overhead – the change in work in process

$\$199,000 = \$40,000 + \$100,000 + \$79,000 - \text{the change in work in process}$

The change in work in process was a \$20,000 increase, therefore beginning work in process was \$26,000.

Difficulty: 2

LO: 1-5

EOC Ref S1-11

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.5-72 Describe product costs and period costs.

Answer:

A product cost is a manufacturing related cost such as direct materials, direct labor and factory overhead. A period cost is a nonmanufacturing related cost such as sales salaries, the CEO's salary and the property taxes on corporate headquarters. Period costs are expensed as incurred whereas product costs aren't expensed until the finished product is sold.

Difficulty: 2

LO: 1-5

EOC Ref P1-27A

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.5-73 The following information was obtained from Fizz Company:

- Advertising costs: \$9,900
- Indirect labor: \$11,000
- CEO's salary: \$49,000
- Direct Labor: \$41,000
- Indirect materials: \$7,900
- Direct materials: \$61,000
- Factory utilities: \$9,000
- Factory supplies: \$700
- Factory janitorial costs: \$2,300
- Manufacturing equipment depreciation: \$2,100
- Delivery vehicle depreciation: \$1,100
- Administrative wages and salaries: \$21,000

How much were Fizz's period costs?

Calculations:

Advertising costs (\$9,900) + CEO's salary (\$49,000) + Delivery vehicle depreciation (\$1,100) + Administrative wages and salaries (\$21,000) = Fizz's period costs (\$81,000)

Difficulty: 2

LO: 1-5

EOC Ref P1-27A

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Measurement, Reporting

1.6-1 Management accountants should never disclose confidential information acquired in the course of their work.

Answer: False

Difficulty: 2

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.6-2 Performing professional duties in accordance with relevant laws, regulations, and technical standards are components of which IMA professional standard?

- A) Competence
- B) Objectivity
- C) Integrity
- D) Confidentiality

Answer: A

Difficulty: 1

LO: 1-6

EOC Ref S1-13

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.6-3 Your company sends you to a conference on a new accounting rule, and you skip the afternoon session to go sightseeing. Which IMA guideline has been violated?
- A) Confidentiality
  - B) Competence
  - C) Objectivity
  - D) Integrity

Answer: D

Difficulty: 1

LO: 1-6

EOC Ref S1-13

AACSB: Analytic Skills

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.6-4 Your company is doing well and you tell your sister that the company will report earnings that are significantly higher than the financial analysts' estimated. Which IMA guideline has been violated?
- A) Objectivity
  - B) Competence
  - C) Confidentiality
  - D) Integrity

Answer: C

Difficulty: 1

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

- 1.6-5 You did not understand what the term "accrual" meant and failed to accrue the interest due at the end of the year on the company's bonds. Which IMA guideline has been violated?
- A) Integrity
  - B) Confidentiality
  - C) Competence
  - D) Objectivity

Answer: C

Difficulty: 1

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Reporting

1.6-6 Match the correct IMA guideline with the situation by placing the number of the guideline on the line before each situation. You may use each number more than once.

1. Competence
2. Confidentiality
3. Integrity
4. Objectivity

- A) \_\_\_\_\_ attend classes to maintain professional competence  
B) \_\_\_\_\_ do not disclose confidential information  
C) \_\_\_\_\_ communicate information fairly  
D) \_\_\_\_\_ refuse any gift or favor that would influence your actions  
E) \_\_\_\_\_ prepare reports in accordance with relevant technical standards  
F) \_\_\_\_\_ communicate unfavorable as well as favorable information

Answer:

- A) 1  
B) 2  
C) 4  
D) 3  
E) 1  
F) 4

Difficulty: 2

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Decision Making

1.6-7 Management accountants have an obligation to maintain the highest standards of ethical conducts. These standards include competence, confidentiality, integrity, and objectivity. Briefly explain what each of these mean for management accountants.

Answer:

The answers will vary but should include the following points:

Competence—maintain professional competence by updating knowledge and skills and perform professional duties in accordance with relevant laws, regulations, and technical standards.

Confidentiality—refrain from disclosing confidential information acquired in the course of work except when authorized, unless legally obligated to do so.

Integrity—avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict. Refuse any gift or favor that would influence or appear to influence actions. Communicate unfavorable as well as favorable information and judgments.

Objectivity—communicate information fairly and objectively.

Difficulty: 2

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Decision making

1.6-8

You are the new controller for Amazing.com. Just before the end of the fiscal year, the company president asks to see the year-end numbers. He is not happy to learn that earnings are down for the first time in the company's history, especially since the financial analysts have predicted another great year for the company. He asks you to speak to the assistant controller who can explain how the previous controller handled this type of situation. The assistant controller suggests that you ask suppliers to postpone billing until the new year begins, delay closing the year-end for a few days so that some of next year's sales can be included in this year, and reduce the allowance for bad debts.

Which of these suggested strategies are inconsistent with IMA standards? What should you do if the company president insists you follow these strategies?

Answer:

Answers will vary but should include the following points. If the goods have been received, postponing receiving the billing and thereby postponing recording the purchases, understates liabilities. This is unethical and inconsistent with IMA standards even if the suppliers agree to delay billing. Delaying year-end closing incorrectly records next year's sales as this year's sales. This is clearly wrong and unethical and is also inconsistent with the IMA standards. The appropriate allowance for bad debts is a difficult judgment, but the decision should not be driven by the desire to meet a profit goal. This strategy is likely inconsistent with the IMA standards.

The controller should resist attempts to implement these strategies. If the president insists, the controller will need to decide whether he or she wants to work for a company that engages in unethical behavior.

Difficulty: 2

LO: 1-6

EOC Ref S1-13

AACSB: Reflective Thinking

AICPA Business Perspective Competencies: Critical Thinking

AICPA Functional Competencies: Decision Making