***Introduction to Managerial Accounting, 8e* (Brewer)**

**Chapter 1 Managerial Accounting and Cost Concepts**

1) A factory supervisor's salary would be classified as an indirect cost with respect to a unit of product.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

2) A direct cost is a cost that can be easily traced to the particular cost object under consideration.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

3) A cost can be direct or indirect. The classification can change if the cost object changes.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

4) Wages paid to production supervisors would be classified as manufacturing overhead.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

5) Selling costs are indirect costs.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

6) The sum of all manufacturing costs except for direct materials and direct labor is called manufacturing overhead.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

7) The three cost elements ordinarily included in product costs are direct materials, direct labor, and manufacturing overhead.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

8) Administrative costs are indirect costs.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

9) Depreciation is always considered a period cost for external financial reporting purposes in a manufacturing company.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

10) Opportunity costs at a manufacturing company are not part of manufacturing overhead.

Answer: TRUE

Difficulty: 3 Hard

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Decision Making

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

11) Conversion cost is the sum of direct labor cost and manufacturing overhead cost.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

12) In a manufacturing company, all costs are period costs.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

13) Advertising is not considered a product cost even if it promotes a specific product.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

14) Selling and administrative expenses are period costs under generally accepted accounting principles.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

15) Conversion cost equals product cost less direct materials cost.

Answer: TRUE

Difficulty: 3 Hard

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

16) Prime cost is the sum of direct materials cost and direct labor cost.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

17) Product costs are also known as inventoriable costs.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

18) Prime cost equals manufacturing overhead cost.

Answer: FALSE

Difficulty: 3 Hard

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

19) Conversion cost is the same thing as manufacturing overhead.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

20) The cost of shipping parts from a supplier is considered a period cost.

Answer: FALSE

Difficulty: 3 Hard

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

21) Depreciation on equipment a company uses in its selling and administrative activities would be classified as a period cost.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

22) Indirect costs, such as manufacturing overhead, are variable costs.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

23) If the activity level increases, then one would expect the fixed cost per unit to increase as well.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

24) A fixed cost is a cost whose cost per unit varies as the activity level rises and falls.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

25) Cost behavior is considered curvilinear whenever a straight line is a reasonable approximation for the relation between cost and activity.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

26) A decrease in production will ordinarily result in a decrease in fixed production costs per unit.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

27) As activity decreases within the relevant range, fixed costs remain constant on a per unit basis.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

28) The variable cost per unit depends on how many units are produced.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

29) In account analysis, an account is classified as either variable or fixed based on an analyst's prior knowledge of how the cost in the account behaves.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

30) A step-variable cost is a cost that is obtained in large chunks and that increases or decreases only in response to fairly wide changes in activity.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

31) Committed fixed costs remain largely unchanged in the short run.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

32) Fixed costs expressed on a per unit basis do not change with changes in activity.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

33) A fixed cost is constant if expressed on a per unit basis but the total dollar amount changes as the number of units increases or decreases.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

34) If managers are reluctant to lay off direct labor employees when activity declines leads to a decrease in the ratio of variable to fixed costs.

Answer: TRUE

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

35) Within the relevant range, a change in activity results in a change in variable cost per unit and total fixed cost.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

36) When operations are interrupted or cut back, committed fixed costs are cut in the short term because the costs of restoring them later are likely to be far less than the short-run savings that are realized.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

37) The concept of the relevant range does not apply to variable costs.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

38) The cost of napkins put on each person's tray at a fast food restaurant is a variable cost with respect to how many persons are served.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

39) A fixed cost fluctuates in total as activity changes but remains constant on a per unit basis over the relevant range.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

40) The relevant range is the range of activity within which the assumption that cost behavior is strictly linear is reasonably valid.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

41) Variable costs per unit are not affected by changes in activity.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

42) The relevant range concept is applicable to mixed costs.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

43) A variable cost remains constant if expressed on a unit basis.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

44) Committed fixed costs represent organizational investments with a one-year planning horizon.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

45) The following costs are all examples of committed fixed costs: depreciation on buildings, salaries of highly trained engineers, real estate taxes, and insurance expenses.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

46) A fixed cost is not constant per unit of product.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

47) Differential costs can only be variable.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Classifications for Decision Making; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

48) The potential benefit that is given up when one alternative is selected over another is called a sunk cost.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

49) The amount that a manufacturing company could earn by renting unused portions of its warehouse is an example of an opportunity cost.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

50) A cost that differs from one month to another is known as a sunk cost.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

51) In a traditional format income statement, the gross margin is sales minus cost of goods sold.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

52) In a traditional format income statement for a merchandising company, cost of goods sold is a variable cost that is included in the "Variable expenses" portion of the income statement.

Answer: FALSE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

53) In a contribution format income statement for a merchandising company, the cost of goods sold reports the product costs attached to the merchandise sold during the period.

Answer: FALSE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

54) Contribution format income statements are prepared primarily for external reporting purposes.

Answer: FALSE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

55) Contribution margin and gross margin mean the same thing.

Answer: FALSE

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

56) In a traditional format income statement, the gross margin minus selling and administrative expenses equals net operating income.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

57) Most companies use the contribution approach in preparing financial statements for external reporting purposes.

Answer: FALSE

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

58) Although the traditional format income statement is useful for external reporting purposes, it has serious limitations when used for internal purposes because it does not distinguish between fixed and variable costs.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

59) The contribution format income statement is used as an internal planning and decision-making tool. Its emphasis on cost behavior aids cost-volume-profit analysis, management performance appraisals, and budgeting.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

60) A contribution format income statement separates costs into fixed and variable categories, first deducting variable expenses from sales to obtain the contribution margin.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

61) Traditional format income statements are widely used for preparing external financial statements.

Answer: TRUE

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

62) Which of the following statements concerning direct and indirect costs is NOT true?

A) Whether a particular cost is classified as direct or indirect does not depend on the cost object.

B) A direct cost is one that can be easily traced to the particular cost object.

C) The factory manager's salary would be classified as an indirect cost of producing one unit of product.

D) A particular cost may be direct or indirect, depending on the cost object.

Answer: A

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

63) Direct costs:

A) are incurred to benefit a particular accounting period.

B) are incurred due to a specific decision.

C) can be easily traced to a particular cost object.

D) are the variable costs of producing a product.

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

64) Which of the following would most likely NOT be included as manufacturing overhead in a furniture factory?

A) The cost of the glue in a chair.

B) The amount paid to the individual who stains a chair.

C) The workman's compensation insurance of the supervisor who oversees production.

D) The factory utilities of the department in which production takes place.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

65) Rotonga Manufacturing Company leases a vehicle to deliver its finished products to customers. Which of the following terms correctly describes the monthly lease payments made on the delivery vehicle?

A)

|  |  |
| --- | --- |
| Direct Cost | Fixed Cost |
| Yes | Yes |

B)

|  |  |
| --- | --- |
| Direct Cost | Fixed Cost |
| Yes | No |

C)

|  |  |
| --- | --- |
| Direct Cost | Fixed Cost |
| No | Yes |

D)

|  |  |
| --- | --- |
| Direct Cost | Fixed Cost |
| No | No |

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

66) The costs of direct materials are classified as:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Conversion cost | Manufacturing cost | Prime cost |
| A) | Yes | Yes | Yes |
| B) | No | No | No |
| C) | Yes | Yes | No |
| D) | No | Yes | Yes |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: D

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

67) Manufacturing overhead includes:

A) all direct material, direct labor and administrative costs.

B) all manufacturing costs except direct labor.

C) all manufacturing costs except direct labor and direct materials.

D) all selling and administrative costs.

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

68) Materials used in a factory that are not an integral part of the final product, such as cleaning supplies, should be classified as:

A) direct materials.

B) a period cost.

C) administrative expense.

D) manufacturing overhead.

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

69) The salary paid to the president of a company would be classified on the income statement as a(n):

A) administrative expense.

B) direct labor cost.

C) manufacturing overhead cost.

D) selling expense.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

70) Which of the following is NOT a period cost?

A) Depreciation of factory maintenance equipment.

B) Salary of a clerk who handles customer billing.

C) Insurance on a company showroom where customers can view new products.

D) Cost of a seminar concerning tax law updates that was attended by the company's controller.

Answer: A

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

71) The cost of electricity for running production equipment is classified as:

|  |  |  |
| --- | --- | --- |
|  | Conversion cost | Period cost |
| A) | Yes | No |
| B) | Yes | Yes |
| C) | No | Yes |
| D) | No | No |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: A

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

72) The cost of lubricants used to grease a production machine in a manufacturing company is an example of a(n):

A) period cost.

B) direct material cost.

C) indirect material cost.

D) opportunity cost.

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

73) Wages paid to the supervisor of the warehouse where raw materials and parts are temporarily stored before being used in production is considered an example of:

|  |  |  |
| --- | --- | --- |
|  | Direct Labor | Period Cost |
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: D

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

74) A factory supervisor's wages are classified as:

|  |  |  |
| --- | --- | --- |
|  | Indirect labor | Fixed manufacturing overhead |
| A) | No | No |
| B) | Yes | Yes |
| C) | Yes | No |
| D) | No | Yes |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

75) Product costs that have become expenses can be found in:

A) period costs.

B) selling expenses.

C) cost of goods sold.

D) administrative expenses.

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

76) The cost of direct materials is classified as a:

|  |  |  |
| --- | --- | --- |
|  | Conversion cost | Prime cost |
| A) | No | No |
| B) | Yes | No |
| C) | No | Yes |
| D) | Yes | Yes |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

77) Which of the following costs is classified as both a prime cost and a conversion cost?

A) Direct materials.

B) Direct labor.

C) Variable overhead.

D) Fixed overhead.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

78) Which of the following is an example of a period cost in a company that makes clothing?

A) Fabric used to produce men's pants.

B) Advertising cost for a new line of clothing.

C) Factory supervisor's salary.

D) Monthly depreciation on production equipment.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

79) All of the following are examples of product costs except:

A) depreciation on the company's retail outlets.

B) salary of the plant manager.

C) insurance on the factory equipment.

D) rental costs of factory equipment.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

80) Which of the following statements about product costs is true?

A) Product costs are deducted from revenue when the production process is completed.

B) Product costs are deducted from revenue as expenditures are made.

C) Product costs associated with unsold finished goods and work in process appear on the balance sheet as assets.

D) Product costs appear on financial statements only when products are sold.

Answer: C

Difficulty: 3 Hard

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

81) Which of the following statements is correct in describing manufacturing overhead?

A) Manufacturing overhead when combined with direct materials cost forms conversion cost.

B) Manufacturing overhead consists of all manufacturing cost except for prime cost.

C) Manufacturing overhead is a period cost.

D) Manufacturing overhead when combined with direct labor cost forms prime cost.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

82) Direct labor cost is classified as:

|  |  |  |
| --- | --- | --- |
|  | Conversion cost | Prime Cost |
| A) | Yes | Yes |
| B) | No | No |
| C) | No | Yes |
| D) | Yes | No |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

83) The fixed portion of the cost of electricity for a manufacturing facility is classified as a:

|  |  |  |
| --- | --- | --- |
|  | Period cost | Product Cost |
| A) | Yes | Yes |
| B) | No | No |
| C) | No | Yes |
| D) | Yes | No |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

84) Prime cost consists of:

A) direct labor and manufacturing overhead.

B) direct materials and manufacturing overhead.

C) direct materials and direct labor.

D) direct materials, direct labor and manufacturing overhead.

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

85) Depreciation on a personal computer used in the marketing department of a manufacturing company would be classified as:

A) a product cost that is fixed with respect to the company's output.

B) a period cost that is fixed with respect to the company's output.

C) a product cost that is variable with respect to the company's output.

D) a period cost that is variable with respect to the company's output.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

86) Property taxes on a company's factory building would be classified as a(n):

A) product cost.

B) opportunity cost.

C) period cost.

D) variable cost.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Decision Making; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

87) Factory overhead is typically a(n):

A) mixed cost.

B) fixed cost.

C) variable cost.

D) irrelevant cost.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

88) As the level of activity increases, how will a mixed cost in total and per unit behave?

|  |  |  |
| --- | --- | --- |
|  | In Total | Per Unit |
| A) | Increase | Decrease |
| B) | Increase | Increase |
| C) | Increase | No effect |
| D) | Decrease | Increase |
| E) | Decrease | No effect |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

E) Choice E

Answer: A

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

89) The following data have been collected for four different cost items.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Cost Item | Cost at  100 units | | | Cost at  140 units | | | |
| W | $ | 8,000 |  | | $ | 10,560 |  | |
| X | $ | 5,000 |  | | $ | 5,000 |  | |
| Y | $ | 6,500 |  | | $ | 9,100 |  | |
| Z | $ | 6,700 |  | | $ | 8,580 |  | |

Which of the following classifications of these cost items by cost behavior is correct?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost W | Cost X | Cost Y | Cost Z |
| A) | variable | fixed | mixed | variable |
| B) | mixed | fixed | variable | mixed |
| C) | variable | fixed | variable | variable |
| D) | mixed | fixed | mixed | mixed |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: B

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

90) Within the relevant range, variable costs can be expected to:

A) vary in total in direct proportion to changes in the activity level.

B) remain constant in total as the activity level changes.

C) increase on a per unit basis as the activity level increases.

D) increase on a per unit basis as the activity level decreases.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

91) The relative proportion of variable, fixed, and mixed costs in a company is known as the company's:

A) contribution margin.

B) cost structure.

C) product mix.

D) relevant range.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

92) An example of a committed fixed cost is:

A) management training seminars.

B) a long-term equipment lease.

C) research and development.

D) advertising.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

93) For the past 8 months, Jinan Corporation has experienced a steady increase in its cost per unit even though total costs have remained stable. This cost per unit increase may be due to \_\_\_\_\_\_\_\_\_\_\_\_\_ costs if the level of activity at Jinan is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A) fixed; decreasing

B) fixed; increasing

C) variable; decreasing

D) variable; increasing

Answer: A

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

94) Which of the following statements is true when referring to fixed costs?

A) Committed fixed costs arise from the annual decisions by management.

B) As volume increases, unit fixed cost and total fixed cost will change.

C) Fixed costs increase in total throughout the relevant range.

D) Discretionary fixed costs can often be reduced to zero for short periods of time without seriously impairing the long-run goals of the company.

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

95) Which costs will change with a decrease in activity within the relevant range?

A) Total fixed costs and total variable cost.

B) Unit fixed costs and total variable cost.

C) Unit variable cost and unit fixed cost.

D) Unit fixed cost and total fixed cost.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

96) Which of the following is correct concerning reactions to INCREASES in activity?

|  |  |  |
| --- | --- | --- |
|  | Total Variable Cost | Variable Cost Per Unit |
| A) | Increases | Decreases |
| B) | Constant | Decreases |
| C) | Decreases | Constant |
| D) | Increases | Constant |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

97) For an automobile manufacturer, the cost of a driver's side air bag purchased from a supplier and installed in every automobile would best be described as a:

A) fixed cost.

B) mixed cost.

C) step-variable cost.

D) variable cost.

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

98) Fixed costs expressed on a per unit basis:

A) increase with increases in activity.

B) decrease with increases in activity.

C) are not affected by activity.

D) should be ignored in making decisions since they cannot change.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

99) Within the relevant range, a difference between variable costs and fixed costs is:

A) variable costs per unit fluctuate and fixed costs per unit remain constant.

B) variable costs per unit are constant and fixed costs per unit fluctuate.

C) both total variable costs and total fixed costs are constant.

D) both total variable costs and total fixed costs fluctuate.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

100) A merchandising company typically will have a high proportion of which type of cost in its cost structure?

A) Variable.

B) Fixed.

C) Mixed.

D) Step-variable.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

101) When the level of activity decreases within the relevant range, the fixed cost per unit will:

A) decrease.

B) increase.

C) remain the same.

D) The effect cannot be predicted.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

102) Which of the following production costs, if expressed on a per unit basis, would be most likely to change significantly as the production level varies?

A) Direct materials.

B) Direct labor.

C) Fixed manufacturing overhead.

D) Variable costs.

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

103) In the standard cost formula Y = a + bX, what does the "Y" represent?

A) total cost

B) total fixed cost

C) total variable cost

D) variable cost per unit

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

104) An example of a committed fixed cost would be:

A) taxes on real estate.

B) management development programs.

C) public relations costs.

D) advertising programs.

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

105) In the standard cost formula Y = a + bX, what does the "X" represent?

A) total cost

B) total fixed cost

C) the level of activity

D) variable cost per unit

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

106) One full-time clerical worker is needed for every 750 accounts receivable. The total wages of the accounts receivable clerks is an example of a:

A) fixed cost.

B) step-variable cost.

C) mixed cost.

D) curvilinear cost.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

107) Which of the following is unlikely to be classified as a fixed cost with respect to the number of units produced and sold?

A) Property taxes on a headquarters building.

B) Legal department salaries.

C) Cost of leasing the company's mainframe computer.

D) Production supplies.

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

108) Which of the following costs could contain both variable and fixed cost elements with respect to the total output of the company?

A) Sales commissions.

B) Manufacturing overhead.

C) Direct materials.

D) Administrative salaries.

Answer: B

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

109) A cost incurred in the past that is not relevant to any current decision is classified as a(n):

A) period cost.

B) opportunity cost.

C) sunk cost.

D) differential cost.

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Decision Making

110) The term that refers to costs incurred in the past that are not relevant to a decision is:

A) marginal cost.

B) indirect cost.

C) period cost.

D) sunk cost.

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Decision Making

111) Differential costs can:

A) only be fixed costs.

B) only be variable costs.

C) be either fixed or variable.

D) be sunk costs.

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Decision Making

112) All of the following can be differential costs except:

A) variable costs.

B) sunk costs.

C) opportunity costs.

D) fixed costs.

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Decision Making

113) Contribution margin is:

A) Sales less cost of goods sold.

B) Sales less variable production, variable selling, and variable administrative expenses.

C) Sales less variable production expense.

D) Sales less all variable and fixed expenses.

Answer: B

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

114) Which of the following approaches to preparing an income statement includes a calculation of the gross margin?

|  |  |  |
| --- | --- | --- |
|  | Traditional  Approach | Contribution  Approach |
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: B

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

115) Meginnis Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 5.20 |  | |
| Direct labor | $ | 3.75 |  | |
| Variable manufacturing overhead | $ | 1.65 |  | |
| Fixed manufacturing overhead | $ | 2.60 |  | |
| Fixed selling expense | $ | 0.50 |  | |
| Fixed administrative expense | $ | 0.40 |  | |
| Sales commissions | $ | 1.50 |  | |
| Variable administrative expense | $ | 0.50 |  | |

If 6,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $79,200

B) $63,600

C) $62,700

D) $53,700

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 5.20 |
| Direct labor |  | 3.75 |
| Direct manufacturing cost per unit (a) | $ | 8.95 |
| Number of units produced (b) |  | 6,000 |
| Total direct manufacturing cost (a) × (b) | $ | 53,700 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

116) Perkey Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 5.00 |  |  |  |  |
| Direct labor | $ | 2.90 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.25 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 21,000 |  |
| Sales commissions | $ | 1.00 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 7,500 |  |

If 4,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $53,400.

B) $35,600.

C) $36,600.

D) $31,600.

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 5.00 |
| Direct labor |  | 2.90 |
| Direct manufacturing cost per unit (a) | $ | 7.90 |
| Number of units produced (b) |  | 4,000 |
| Total direct manufacturing cost (a) × (b) | $ | 31,600 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

117) Norred Corporation has provided the following information:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | | |
| Direct materials | $ | 7.05 |  | |  |  |  | |
| Direct labor | $ | 3.70 |  | |  |  |  | |
| Variable manufacturing overhead | $ | 1.60 |  | |  |  |  | |
| Fixed manufacturing overhead |  |  |  | | $ | 121,500 |  | |
| Sales commissions | $ | 1.50 |  | |  |  |  | |
| Variable administrative expense | $ | 0.45 |  | |  |  |  | |
| Fixed selling and administrative expense |  |  |  | | $ | 44,550 |  | |

If 8,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $120,800.

B) $134,300.

C) $12,800.

D) $121,500.

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost ($1.60 per unit × 8,000 units) | $ | 12,800 |
| Total fixed manufacturing overhead cost |  | 121,500 |
| Total indirect manufacturing cost | $ | 134,300 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

118) Ouelette Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 5.25 |  |
| Direct labor | $ | 4.05 |  |
| Variable manufacturing overhead | $ | 1.30 |  |
| Fixed manufacturing overhead | $ | 3.00 |  |
| Fixed selling expense | $ | 0.70 |  |
| Fixed administrative expense | $ | 0.40 |  |
| Sales commissions | $ | 0.50 |  |
| Variable administrative expense | $ | 0.45 |  |

If 6,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $15,000

B) $22,800

C) $7,800

D) $25,800

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost ($1.30 per unit × 6,000 units) | $ | 7,800 |
| Total fixed manufacturing overhead cost ($3.00 per unit × 5,000 units\*) |  | 15,000 |
| Total indirect manufacturing cost | $ | 22,800 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

119) The following costs were incurred in May:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | | |
| Direct materials | $ | 41,000 |  | |
| Direct labor | $ | 13,000 |  | |
| Manufacturing overhead | $ | 46,000 |  | |
| Selling expenses | $ | 18,000 |  | |
| Administrative expenses | $ | 15,000 |  | |

Conversion costs during the month totaled:

A) $54,000

B) $133,000

C) $59,000

D) $87,000

Answer: C

Explanation: Conversion cost = Direct labor + Manufacturing overhead = $13,000 + $46,000 = $59,000

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

120) Abburi Company's manufacturing overhead is 60% of its total conversion costs. If direct labor is $52,000 and if direct materials are $28,000, the manufacturing overhead is:

A) $34,667

B) $78,000

C) $42,000

D) $120,000

Answer: B

Explanation: Manufacturing overhead = 0.60 × Conversion cost

Direct labor = $52,000

Conversion cost = Direct labor + Manufacturing overhead

Conversion cost = $52,000 + Manufacturing overhead

Conversion cost = $52,000 + (0.60 × Conversion cost)

0.40 × Conversion cost = $52,000

Conversion cost = $52,000 ÷ 0.40 = $130,000

Manufacturing overhead = 0.60 × Conversion cost

Manufacturing overhead = 0.60 × $130,000 = $78,000

Difficulty: 3 Hard

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

121) During the month of May, direct labor cost totaled $10,000 and direct labor cost was 40% of prime cost. If total manufacturing costs during May were $86,000, the manufacturing overhead was:

A) $76,000

B) $25,000

C) $61,000

D) $15,000

Answer: C

Explanation:

Direct labor cost = $10,000

Direct labor cost = 0.40 × Prime cost

Total manufacturing cost = $86,000

Direct labor cost = 0.40 × Prime cost

Prime cost = Direct labor cost ÷ 0.40

Prime cost = $10,000 ÷ 0.40 = $25,000

Total manufacturing cost = Prime cost + Manufacturing overhead cost

$86,000 = $25,000 + Manufacturing overhead cost

Manufacturing overhead cost = $61,000

Difficulty: 3 Hard

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

122) In May direct labor was 60% of conversion cost. If the manufacturing overhead for the month was $54,000 and the direct materials cost was $30,000, the direct labor cost was:

A) $36,000

B) $20,000

C) $81,000

D) $45,000

Answer: C

Explanation: Direct labor = 0.60 × Conversion cost

Manufacturing overhead = $54,000

Conversion cost = Direct labor + Manufacturing overhead

Conversion cost = Direct labor + $54,000

Conversion cost = (0.60 × Conversion cost) + $54,000

0.40 × Conversion cost = $54,000

Conversion cost = $54,000 ÷ 0.40

Conversion cost = $135,000

Direct labor = 0.60 × Conversion cost = 0.60 × $135,000 = $81,000

Difficulty: 3 Hard

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

123) The following costs were incurred in May:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | | |
| Direct materials | $ | 33,000 |  | |
| Direct labor | $ | 13,000 |  | |
| Manufacturing overhead | $ | 23,000 |  | |
| Selling expenses | $ | 16,000 |  | |
| Administrative expenses | $ | 34,000 |  | |

Prime costs during the month totaled:

A) $36,000

B) $119,000

C) $69,000

D) $46,000

Answer: D

Explanation: Prime cost = Direct materials + Direct labor

= $33,000 + $13,000 = $46,000

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

124) Kneeland Corporation has provided the following information:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | | |
| Direct materials | $ | 6.80 |  | |  |  |  |
| Direct labor | $ | 4.15 |  | |  |  |  |
| Variable manufacturing overhead | $ | 1.65 |  | |  |  |  |
| Fixed manufacturing overhead |  |  |  | | $ | 121,500 |  |
| Sales commissions | $ | 1.00 |  | |  |  |  |
| Variable administrative expense | $ | 0.50 |  | |  |  |  |
| Fixed selling and administrative expense |  |  |  | | $ | 40,500 |  |

If 10,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $186,000

B) $138,000

C) $162,000

D) $150,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost ($1.65 per unit × 10,000 units) | $ | 16,500 |
| Total fixed manufacturing overhead cost |  | 121,500 |
| Total manufacturing overhead cost (a) | $ | 138,000 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

125) Perteet Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 6.70 |  |
| Direct labor | $ | 3.25 |  |
| Variable manufacturing overhead | $ | 1.60 |  |
| Fixed manufacturing overhead | $ | 3.00 |  |
| Fixed selling expense | $ | 0.70 |  |
| Fixed administrative expense | $ | 0.40 |  |
| Sales commissions | $ | 0.50 |  |
| Variable administrative expense | $ | 0.55 |  |

If 4,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $18,100

B) $28,000

C) $21,400

D) $14,800

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost ($1.60 per unit × 4,000 units) | $ | 6,400 |
| Total fixed manufacturing overhead cost ($3.00 per unit × 5,000 units\*) |  | 15,000 |
| Total manufacturing overhead cost (a) | $ | 21,400 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

126) A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is $2,100 and is paid at the beginning of the first year. Sixty percent of the premium applies to manufacturing operations and forty percent applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?

|  |  |  |
| --- | --- | --- |
|  | Product | Period |
| A) | $280 | $420 |
| B) | $420 | $280 |
| C) | $700 | $0 |
| D) | $0 | $700 |

A) Choice A

B) Choice B

C) Choice C

D) Choice D

Answer: B

Explanation: Annual insurance expense = $2,100 ÷ 3 = $700

Portion applicable to product cost = 0.60 × $700 = $420

Portion applicable to period cost = 0.40 × $700 = $280

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

127) Shelp Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 7.15 |  |  |  |  |
| Direct labor | $ | 3.35 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.40 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 81,000 |  |
| Sales commissions | $ | 0.50 |  |  |  |  |
| Variable administrative expense | $ | 0.50 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 40,500 |  |

For financial reporting purposes, the total amount of period costs incurred to sell 9,000 units is closest to:

A) $33,000

B) $9,000

C) $40,500

D) $49,500

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 0.50 |
| Variable administrative expense |  | 0.50 |
| Variable selling and administrative expense per unit | $ | 1.00 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense  ($1.00 per unit × 9,000 units sold) | $ | 9,000 |
| Total fixed selling and administrative expense |  | 40,500 |
| Total period (nonmanufacturing) cost | $ | 49,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

128) Phaup Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 4.85 |  |
| Direct labor | $ | 4.00 |  |
| Variable manufacturing overhead | $ | 1.75 |  |
| Fixed manufacturing overhead | $ | 3.90 |  |
| Fixed selling expense | $ | 0.90 |  |
| Fixed administrative expense | $ | 0.60 |  |
| Sales commissions | $ | 0.50 |  |
| Variable administrative expense | $ | 0.45 |  |

For financial reporting purposes, the total amount of period costs incurred to sell 5,000 units is closest to:

A) $8,200

B) $12,250

C) $7,500

D) $4,750

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 0.50 |
| Variable administrative expense |  | 0.45 |
| Variable selling and administrative expense per unit | $ | 0.95 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense ($0.95 per unit × 5,000 units sold) | $ | 4,750 |
| Total fixed selling and administrative expense  ($0.90 per unit × 5,000 units + $0.60 per unit × 5,000 units) |  | 7,500 |
| Total period (nonmanufacturing) cost | $ | 12,250 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

129) Bressette Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.20 |  |  |  |  |
| Direct labor | $ | 3.70 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.25 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 10,000 |  |
| Sales commissions | $ | 1.50 |  |  |  |  |
| Variable administrative expense | $ | 0.50 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 5,000 |  |

For financial reporting purposes, the total amount of product costs incurred to make 5,000 units is closest to:

A) $65,750

B) $10,000

C) $70,750

D) $55,750

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.20 |
| Direct labor |  | 3.70 |
| Variable manufacturing overhead |  | 1.25 |
| Variable manufacturing cost per unit | $ | 11.15 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost ($11.15 per unit × 5,000 units produced) | $ | 55,750 |
| Total fixed manufacturing overhead cost |  | 10,000 |
| Total product (manufacturing) cost | $ | 65,750 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

130) Landmann Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 6.35 |  |
| Direct labor | $ | 4.10 |  |
| Variable manufacturing overhead | $ | 1.35 |  |
| Fixed manufacturing overhead | $ | 13.50 |  |
| Fixed selling expense | $ | 2.25 |  |
| Fixed administrative expense | $ | 1.80 |  |
| Sales commissions | $ | 1.00 |  |
| Variable administrative expense | $ | 0.45 |  |

For financial reporting purposes, the total amount of product costs incurred to make 9,000 units is closest to:

A) $106,200

B) $236,700

C) $121,500

D) $227,700

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.35 |
| Direct labor |  | 4.10 |
| Variable manufacturing overhead |  | 1.35 |
| Variable manufacturing cost per unit | $ | 11.80 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost ($11.80 per unit × 9,000 units produced) | $ | 106,200 |
| Total fixed manufacturing overhead cost ($13.50 per unit × 9,000 units produced) |  | 121,500 |
| Total product (manufacturing) cost | $ | 227,700 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

131) Timchak Corporation reports that at an activity level of 9,900 units, its total variable cost is $919,116 and its total fixed cost is $259,974. What would be the total cost, both fixed and variable, at an activity level of 10,100 units? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $1,197,658

B) $1,191,000

C) $1,179,090

D) $1,202,910

Answer: A

Explanation: Variable cost per unit = $919,116 ÷ 9,900 units = $92.84 per unit

Total cost = Total fixed cost + Total variable cost

= $259,974 + ($92.84 per unit × 10,100 units)

= $259,974 + $937,684

= $1,197,658

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

132) Wofril Corporation uses the cost formula Y = $5,300 + $0.60X for the maintenance cost, where X is machine-hours. The August budget is based on 8,000 hours of planned machine time. Maintenance cost expected to be incurred during August is:

A) $10,100

B) $4,800

C) $500

D) $5,300

Answer: A

Explanation:

Y = $5,300 + ($0.60 per unit × X)

= $5,300 + ($0.60 per unit × 8,000 hours)

= $5,300 + $4,800

= $10,100

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

133) At an activity level of 7,200 machine-hours in a month, Falks Corporation's total variable production engineering cost is $556,416 and its total fixed production engineering cost is $226,008. What would be the total production engineering cost per machine-hour, both fixed and variable, at an activity level of 7,300 machine-hours in a month? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $107.93

B) $107.18

C) $108.67

D) $108.24

Answer: D

Explanation: Variable cost per machine-hour = $556,416 ÷ 7,200 machine-hours = $77.28 per machine-hour

Fixed cost per machine-hour at 7,300 machine-hours = $226,008 ÷ 7,300 machine-hours = $30.96 per machine-hour

Total cost = Variable cost + Fixed cost

= $77.28 per machine-hour + $30.96 per machine-hour

= $108.24 per machine-hour

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

134) Mullennex Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average  Cost per Unit | | |
| Direct materials | $ | 6.55 |  |
| Direct labor | $ | 3.50 |  |
| Variable manufacturing overhead | $ | 1.25 |  |
| Fixed manufacturing overhead | $ | 3.00 |  |
| Fixed selling expense | $ | 0.50 |  |
| Fixed administrative expense | $ | 0.40 |  |
| Sales commissions | $ | 1.50 |  |
| Variable administrative expense | $ | 0.40 |  |

If 5,000 units are produced, the average fixed manufacturing cost per unit produced is closest to:

A) $2.40

B) $2.70

C) $3.00

D) $3.75

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total fixed manufacturing overhead cost ($3.00 per unit × 4,000 units\*) (a) | $ | 12,000 |
| Number of units produced (b) |  | 5,000 |
| Average fixed manufacturing cost per unit produced  (a) ÷ (b) | $ | 2.40 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

135) Brault Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.85 |  |  |  |  |
| Direct labor | $ | 3.85 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.25 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 97,200 |  |
| Sales commissions | $ | 1.00 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 40,500 |  |

If 10,000 units are sold, the variable cost per unit sold is closest to:

A) $22.75

B) $11.95

C) $13.50

D) $28.80

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.85 |
| Direct labor |  | 3.85 |
| Variable manufacturing overhead |  | 1.25 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.55 |
| Variable cost per unit sold | $ | 13.50 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

136) Given the cost formula, Y = $16,000 + $3.40X, total cost for an activity level of 4,000 units would be:

A) $13,600

B) $3,600

C) $29,600

D) $16,000

Answer: C

Explanation:

Y = $16,000 + ($3.40 per unit × X)

= $16,000 + ($3.40 per unit × 4,000 units)

= $16,000 + $13,600

= $29,600

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

137) Sparacino Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.90 |  |  |  |  |
| Direct labor | $ | 3.90 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.70 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 25,200 |  |
| Sales commissions | $ | 1.50 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 8,100 |  |

If 5,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $24,750

B) $42,650

C) $33,700

D) $29,225

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost ($1.70 per unit × 5,000 units) | $ | 8,500 |
| Total fixed manufacturing overhead cost |  | 25,200 |
| Total manufacturing overhead cost (a) | $ | 33,700 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

138) Given the cost formula Y = $23,000 + $8X, total cost at an activity level of 7,000 units would be:

A) $33,000

B) $79,000

C) $23,000

D) $56,000

Answer: B

Explanation:

Y = $23,000 + ($8 per unit × 7,000 units)

Y = $23,000 + $56,000

Y = $79,000

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

139) At an activity level of 8,400 units in a month, Braughton Corporation's total variable maintenance and repair cost is $697,284 and its total fixed maintenance and repair cost is $464,100. What would be the total maintenance and repair cost, both fixed and variable, at an activity level of 8,500 units in a month? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $1,175,210

B) $1,169,685

C) $1,161,384

D) $1,168,297

Answer: B

Explanation: Variable cost per unit = $697,284 ÷ 8,400 units = $83.01 per unit

Total cost = Total fixed cost + Total variable cost

= $464,100 + ($83.01 per unit × 8,500 units)

= $464,100 + $705,585

= $1,169,685

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

140) The following data pertains to activity and costs for two months:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | June | | | July | | |
| Activity level in units |  | 10,000 |  |  | 11,000 |  |
| Direct materials | $ | 17,000 |  | $ | ? |  |
| Fixed factory rent |  | 21,000 |  |  | ? |  |
| Other production costs |  | 20,000 |  |  | ? |  |
| Total cost | $ | 58,000 |  | $ | 61,300 |  |

Assuming that these activity levels are within the relevant range, the other production costs for July were: **(Round intermediate calculations to 2 decimal places.)**

A) $21,600

B) $20,000

C) $22,000

D) $19,500

Answer: A

Explanation: Direct materials per unit = $17,000 ÷ 10,000 units = $1.70 per unit

Total direct materials cost in July = $1.70 per unit × 11,000 units = $18,700

Fixed factory rent = $21,000 (given)

Total cost = Direct materials + Fixed factory rent + Other production costs

$61,300 = $18,700 + $21,000 + Other production costs

Other production costs = $61,300 − ($18,700 + $21,000)

= $61,300 − $39,700

= $21,600

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

141) Paolucci Corporation's relevant range of activity is 4,000 units to 8,000 units. When it produces and sells 6,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average Cost per Unit | | |
| Direct materials | $ | 6.45 |  |
| Direct labor | $ | 3.30 |  |
| Variable manufacturing overhead | $ | 1.25 |  |
| Fixed manufacturing overhead | $ | 3.00 |  |
| Fixed selling expense | $ | 1.05 |  |
| Fixed administrative expense | $ | 0.60 |  |
| Sales commissions | $ | 1.00 |  |
| Variable administrative expense | $ | 0.50 |  |

If 5,000 units are sold, the variable cost per unit sold is closest to:

A) $17.15

B) $11.00

C) $14.00

D) $12.50

Answer: D

Explanation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | | |
| Direct materials | $ | 6.45 |  |
| Direct labor |  | 3.30 |  |
| Variable manufacturing overhead |  | 1.25 |  |
| Sales commissions |  | 1.00 |  |
| Variable administrative expense |  | 0.50 |  |
| Variable cost per unit sold | $ | 12.50 |  |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

142) Schonhardt Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average Cost per Unit | | |
| Direct materials | $ | 7.15 |  |
| Direct labor | $ | 3.40 |  |
| Variable manufacturing overhead | $ | 1.35 |  |
| Fixed manufacturing overhead | $ | 2.80 |  |
| Fixed selling expense | $ | 0.70 |  |
| Fixed administrative expense | $ | 0.40 |  |
| Sales commissions | $ | 0.50 |  |
| Variable administrative expense | $ | 0.40 |  |

If 5,000 units are produced, the total amount of fixed manufacturing cost incurred is closest to:

A) $16,800

B) $14,000

C) $12,600

D) $11,200

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Fixed manufacturing overhead per unit | $ | 2.80 |
| Number of units produced\* |  | 4,000 |
| Total fixed manufacturing overhead cost | $ | 11,200 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

143) At a volume of 5,000 units, Pwerson Company incurred $32,000 in factory overhead costs, including $14,000 in fixed costs. If volume increases to 6,000 units and both 5,000 units and 6,000 units are within the relevant range, then the company would expect to incur total factory overhead costs of: **(Round intermediate calculations to 2 decimal places.)**

A) $35,600

B) $21,600

C) $32,000

D) $18,000

Answer: A

Explanation: Total cost = Total fixed cost + Total variable cost

$32,000 = $14,000 + Total variable cost

Total variable cost = $32,000 – $14,000 = $18,000

Variable cost per unit = $18,000 ÷ 5,000 units = $3.60 per unit

Total cost = Total fixed cost + Total variable cost

= $14,000 + ($3.60 per unit × 6,000 units)

= $14,000 + $21,600 = $35,600

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

144) Waldhauser Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average Cost per Unit | | |
| Direct materials | $ | 6.10 |  |
| Direct labor | $ | 3.45 |  |
| Variable manufacturing overhead | $ | 1.75 |  |
| Fixed manufacturing overhead | $ | 3.30 |  |
| Fixed selling expense | $ | 0.75 |  |
| Fixed administrative expense | $ | 0.60 |  |
| Sales commissions | $ | 1.50 |  |
| Variable administrative expense | $ | 0.45 |  |

If 6,000 units are sold, the total variable cost is closest to:

A) $79,500

B) $107,400

C) $67,800

D) $87,600

Answer: A

Explanation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | | |
| Direct materials | $ | 6.10 |  |
| Direct labor | $ | 3.45 |  |
| Variable manufacturing overhead | $ | 1.75 |  |
| Sales commissions | $ | 1.50 |  |
| Variable administrative expense | $ | 0.45 |  |
| Variable cost per unit sold | $ | 13.25 |  |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 13.25 |
| Number of units sold (b) |  | 6,000 |
| Total variable costs (a) × (b) | $ | 79,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

145) Comparative income statements for Boggs Sports Equipment Company for the last two months are presented below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | July | | | August | | | |
| Sales in units |  | 11,000 |  | |  | 10,000 |  | |
| Sales | $ | 165,000 |  | | $ | 150,000 |  | |
| Cost of goods sold |  | 72,600 |  | |  | 66,000 |  | |
| Gross margin |  | 92,400 |  | |  | 84,000 |  | |
| Selling and administrative expenses: |  |  |  | |  |  |  | |
| Rent | $ | 12,000 |  | | $ | 12,000 |  | |
| Sales commissions | $ | 13,200 |  | | $ | 12,000 |  | |
| Maintenance expenses | $ | 13,500 |  | | $ | 13,000 |  | |
| Clerical expense | $ | 16,000 |  | | $ | 15,000 |  | |
| Total selling and administrative expenses | $ | 54,700 |  | | $ | 52,000 |  | |
| Net operating income | $ | 37,700 |  | | $ | 32,000 |  | |

All of the company's costs are either fixed, variable, or a mixture of the two (i.e., mixed). Assume that the relevant range includes all of the activity levels mentioned in this problem.

Which of the selling and administrative expenses of the company is variable?

A) Rent

B) Sales Commissions

C) Maintenance Expense

D) Clerical Expense

Answer: B

Explanation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | July | | | August | | | | | Percentage Change | |
| Sales in units |  | 11,000 |  | |  | 10,000 |  |  | | -9.09% | |
| Selling and administrative expenses: |  |  |  | |  |  |  |  | |  | |
| Rent |  | 12,000 |  | |  | 12,000 |  |  | | 0.00% | |
| Sales commissions |  | 13,200 |  | |  | 12,000 |  |  | | -9.09% | |
| Maintenance expenses |  | 13,500 |  | |  | 13,000 |  |  | | -3.70% | |
| Clerical expense |  | 16,000 |  | |  | 15,000 |  |  | | -6.25% | |

Variable expenses are proportional to activity. In this case, sales commissions are the only selling and administrative expense that is proportional to unit sales.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

146) Tirri Corporation has provided the following information:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | | |
| Direct materials | $ | 6.85 |  | |  |  |  | |
| Direct labor | $ | 3.90 |  | |  |  |  | |
| Variable manufacturing overhead | $ | 1.25 |  | |  |  |  | |
| Fixed manufacturing overhead |  |  |  | | $ | 22,500 |  | |
| Sales commissions | $ | 1.00 |  | |  |  |  | |
| Variable administrative expense | $ | 0.55 |  | |  |  |  | |
| Fixed selling and administrative expense |  |  |  | | $ | 7,500 |  | |

If the selling price is $26.20 per unit, the contribution margin per unit sold is closest to:

A) $12.65

B) $6.65

C) $15.45

D) $9.70

Answer: A

Explanation:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | |  | | | |
| Selling price per unit |  |  |  | | $ | 26.20 |  | |
| Direct materials | $ | 6.85 |  | |  |  |  | |
| Direct labor |  | 3.90 |  | |  |  |  | |
| Variable manufacturing overhead |  | 1.25 |  | |  |  |  | |
| Sales commissions |  | 1.00 |  | |  |  |  | |
| Variable administrative expense |  | 0.55 |  | |  |  |  | |
| Variable cost per unit sold |  |  |  | |  | 13.55 |  | |
| Contribution margin per unit |  |  |  | | $ | 12.65 |  | |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

147) Macy Corporation's relevant range of activity is 4,000 units to 8,000 units. When it produces and sells 6,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 4.95 |
| Direct labor | $ | 3.25 |
| Variable manufacturing overhead | $ | 1.45 |
| Fixed manufacturing overhead | $ | 4.20 |
| Fixed selling expense | $ | 1.05 |
| Fixed administrative expense | $ | 0.60 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.50 |

If the selling price is $23.50 per unit, the contribution margin per unit sold is closest to:

A) $9.65

B) $6.50

C) $15.30

D) $12.35

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
| Selling price per unit |  | $23.50 |
| Direct materials | $4.95 |  |
| Direct labor | 3.25 |  |
| Variable manufacturing overhead | 1.45 |  |
| Sales commissions | 1.00 |  |
| Variable administrative expense | 0.50 |  |
| Variable cost per unit sold |  | 11.15 |
| Contribution margin per unit |  | 12.35 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

148) Bellucci Corporation has provided the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | |
| Direct materials | $ | 7.10 |  |  |
| Direct labor | $ | 3.95 |  |  |
| Variable manufacturing overhead | $ | 1.75 |  |  |
| Fixed manufacturing overhead |  |  | $ | 105,300 |
| Sales commissions | $ | 1.00 |  |  |
| Variable administrative expense | $ | 0.50 |  |  |
| Fixed selling and administrative expense |  |  | $ | 36,450 |

The incremental manufacturing cost that the company will incur if it increases production from 9,000 to 9,001 units is closest to (assume that the increase is within the relevant range):

A) $26.75

B) $12.80

C) $30.05

D) $24.50

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.10 |
| Direct labor |  | 3.95 |
| Variable manufacturing overhead |  | 1.75 |
| Incremental manufacturing cost | $ | 12.80 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

149) Fiori Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average Cost per Unit | | |
| Direct materials | $ | 6.05 |  |
| Direct labor | $ | 3.05 |  |
| Variable manufacturing overhead | $ | 1.70 |  |
| Fixed manufacturing overhead | $ | 3.00 |  |
| Fixed selling expense | $ | 0.50 |  |
| Fixed administrative expense | $ | 0.40 |  |
| Sales commissions | $ | 1.00 |  |
| Variable administrative expense | $ | 0.50 |  |

The incremental manufacturing cost that the company will incur if it increases production from 5,000 to 5,001 units is closest to:

A) $16.20

B) $10.80

C) $13.80

D) $14.30

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.05 |
| Direct labor |  | 3.05 |
| Variable manufacturing overhead |  | 1.70 |
| Incremental manufacturing cost | $ | 10.80 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

150) Haack Inc. is a merchandising company. Last month the company's cost of goods sold was $84,000. The company's beginning merchandise inventory was $20,000 and its ending merchandise inventory was $18,000. What was the total amount of the company's merchandise purchases for the month?

A) $86,000

B) $82,000

C) $84,000

D) $122,000

Answer: B

Explanation: Cost of goods sold = Beginning merchandise inventory + Purchases – Ending merchandise inventory

$84,000 = $20,000 + Purchases – $18,000

Purchases = $84,000 – $20,000 + $18,000 = $82,000

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

151) Gabel Inc. is a merchandising company. Last month the company's merchandise purchases totaled $63,000. The company's beginning merchandise inventory was $13,000 and its ending merchandise inventory was $15,000. What was the company's cost of goods sold for the month?

A) $91,000

B) $63,000

C) $65,000

D) $61,000

Answer: D

Explanation: Cost of goods sold = Beginning merchandise inventory + Purchases – Ending merchandise inventory = $13,000 + $63,000 – $15,000 = $61,000

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

152) The following cost data pertain to the operations of Quinonez Department Stores, Inc., for the month of September.

|  |  |  |
| --- | --- | --- |
|  |  | |
| Corporate headquarters building lease | $ | 77,000 | |
| Cosmetics Department sales commissions—Northridge Store | $ | 4,000 | |
| Corporate legal office salaries | $ | 59,000 | |
| Store manager's salary—Northridge Store | $ | 11,000 | |
| Heating—Northridge Store | $ | 10,000 | |
| Cosmetics Department cost of sales—Northridge Store | $ | 37,000 | |
| Central warehouse lease cost | $ | 16,000 | |
| Store security—Northridge Store | $ | 12,000 | |
| Cosmetics Department manager's salary—Northridge Store | $ | 4,000 | |

The Northridge Store is just one of many stores owned and operated by the company. The Cosmetics Department is one of many departments at the Northridge Store. The central warehouse serves all of the company's stores.

What is the total amount of the costs listed above that are direct costs of the Cosmetics Department?

A) $78,000

B) $45,000

C) $41,000

D) $37,000

Answer: B

Explanation: Direct costs of the Cosmetics Department = Cosmetics Department sales commissions + Cosmetics Department cost of sales + Cosmetics Department manager's salary = $4,000 + $37,000 + $4,000 = $45,000

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

153) The following cost data pertain to the operations of Quinonez Department Stores, Inc., for the month of September.

|  |  |  |
| --- | --- | --- |
|  |  | |
| Corporate headquarters building lease | $ | 77,000 | |
| Cosmetics Department sales commissions—Northridge Store | $ | 4,000 | |
| Corporate legal office salaries | $ | 59,000 | |
| Store manager's salary—Northridge Store | $ | 11,000 | |
| Heating—Northridge Store | $ | 10,000 | |
| Cosmetics Department cost of sales—Northridge Store | $ | 37,000 | |
| Central warehouse lease cost | $ | 16,000 | |
| Store security—Northridge Store | $ | 12,000 | |
| Cosmetics Department manager's salary—Northridge Store | $ | 4,000 | |

The Northridge Store is just one of many stores owned and operated by the company. The Cosmetics Department is one of many departments at the Northridge Store. The central warehouse serves all of the company's stores.

What is the total amount of the costs listed above that are NOT direct costs of the Northridge Store?

A) $152,000

B) $33,000

C) $45,000

D) $77,000

Answer: A

Explanation: Costs that are not direct costs of the Northridge Store = Corporate headquarters building lease + Corporate legal office salaries + Central warehouse lease cost = $77,000 + $59,000 + $16,000 = $152,000

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

154) The following cost data pertain to the operations of Ladwig Department Stores, Inc., for the month of December.

|  |  |  |
| --- | --- | --- |
|  |  | |
| Corporate legal office salaries | $ | 68,000 | |
| Shoe Department cost of sales—Brentwood Store | $ | 66,000 | |
| Corporate headquarters building lease | $ | 86,000 | |
| Store manager's salary—Brentwood Store | $ | 10,000 | |
| Shoe Department sales commissions—Brentwood Store | $ | 5,000 | |
| Store utilities—Brentwood Store | $ | 11,000 | |
| Shoe Department manager's salary—Brentwood Store | $ | 3,000 | |
| Central warehouse lease cost | $ | 3,000 | |
| Janitorial costs—Brentwood Store | $ | 11,000 | |

The Brentwood Store is just one of many stores owned and operated by the company. The Shoe Department is one of many departments at the Brentwood Store. The central warehouse serves all of the company's stores.

What is the total amount of the costs listed above that are direct costs of the Shoe Department?

A) $66,000

B) $74,000

C) $106,000

D) $71,000

Answer: B

Explanation: Direct costs of the Shoe Department = Shoe Department cost of sales + Shoe Department sales commissions + Shoe Department manager's salary = $66,000 + $5,000 + $3,000 = $74,000

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

155) The following cost data pertain to the operations of Ladwig Department Stores, Inc., for the month of December.

|  |  |  |
| --- | --- | --- |
|  |  | |
| Corporate legal office salaries | $ | 68,000 | |
| Shoe Department cost of sales—Brentwood Store | $ | 66,000 | |
| Corporate headquarters building lease | $ | 86,000 | |
| Store manager's salary—Brentwood Store | $ | 10,000 | |
| Shoe Department sales commissions—Brentwood Store | $ | 5,000 | |
| Store utilities—Brentwood Store | $ | 11,000 | |
| Shoe Department manager's salary—Brentwood Store | $ | 3,000 | |
| Central warehouse lease cost | $ | 3,000 | |
| Janitorial costs—Brentwood Store | $ | 11,000 | |

The Brentwood Store is just one of many stores owned and operated by the company. The Shoe Department is one of many departments at the Brentwood Store. The central warehouse serves all of the company's stores.

What is the total amount of the costs listed above that are NOT direct costs of the Brentwood Store?

A) $74,000

B) $32,000

C) $157,000

D) $86,000

Answer: C

Explanation: Costs that are not direct costs of the Brentwood Store = Corporate legal office salaries + Corporate headquarters building lease + Central warehouse lease cost = $68,000 + $86,000 + $3,000 = $157,000

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

156) Dake Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.55 |
| Direct labor | $ | 3.50 |
| Variable manufacturing overhead | $ | 1.40 |
| Fixed manufacturing overhead | $ | 2.60 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.45 |

For financial reporting purposes, the total amount of product costs incurred to make 4,000 units is closest to:

A) $56,200

B) $45,800

C) $60,200

D) $10,400

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.55 |
| Direct labor |  | 3.50 |
| Variable manufacturing overhead |  | 1.40 |
| Variable manufacturing cost per unit | $ | 11.45 |

|  |  |  |
| --- | --- | --- |
| Total variable manufacturing cost  ($11.45 per unit × 4,000 units produced) | $ | 45,800 |
| Total fixed manufacturing overhead cost  ($2.60 per unit × 4,000 units produced) |  | 10,400 |
| Total product (manufacturing) cost | $ | 56,200 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

157) Dake Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.55 |
| Direct labor | $ | 3.50 |
| Variable manufacturing overhead | $ | 1.40 |
| Fixed manufacturing overhead | $ | 2.60 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.45 |

For financial reporting purposes, the total amount of period costs incurred to sell 4,000 units is closest to:

A) $7,800

B) $8,100

C) $4,400

D) $12,200

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 1.50 |
| Variable administrative expense |  | 0.45 |
| Variable selling and administrative expense per unit | $ | 1.95 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense  ($1.95 per unit × 4,000 units sold) | $ | 7,800 |
| Total fixed selling and administrative expense  ($0.70 per unit × 4,000 units + $0.40 per unit × 4,000 units) |  | 4,400 |
| Total period (nonmanufacturing) cost | $ | 12,200 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

158) Dake Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.55 |
| Direct labor | $ | 3.50 |
| Variable manufacturing overhead | $ | 1.40 |
| Fixed manufacturing overhead | $ | 2.60 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.45 |

If 3,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $30,150

B) $34,350

C) $42,150

D) $34,650

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.55 |
| Direct labor |  | 3.50 |
| Direct manufacturing cost per unit (a) | $ | 10.05 |
| Number of units produced (b) |  | 3,000 |
| Total direct manufacturing cost (a) × (b) | $ | 30,150 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

159) Dake Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.55 |
| Direct labor | $ | 3.50 |
| Variable manufacturing overhead | $ | 1.40 |
| Fixed manufacturing overhead | $ | 2.60 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.45 |

If 3,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $4,200

B) $10,400

C) $14,600

D) $12,000

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.40 per unit × 3,000 units) | $ | 4,200 |
| Total fixed manufacturing overhead cost  ($2.60 per unit × 4,000 units\*) |  | 10,400 |
| Total indirect manufacturing cost | $ | 14,600 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

160) Glew Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.00 | |  |  | |
| Direct labor | $ | 3.35 | |  |  | |
| Variable manufacturing overhead | $ | 1.75 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 8,800 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,000 | |

For financial reporting purposes, the total amount of product costs incurred to make 4,000 units is closest to:

A) $57,200

B) $8,800

C) $44,400

D) $53,200

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.00 |
| Direct labor |  | 3.35 |
| Variable manufacturing overhead |  | 1.75 |
| Variable manufacturing cost per unit | $ | 11.10 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost  ($11.10 per unit × 4,000 units produced) | $ | 44,400 |
| Total fixed manufacturing overhead cost |  | 8,800 |
| Total product (manufacturing) cost | $ | 53,200 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

161) Glew Corporation has provided the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | |
| Direct materials | $ | 6.00 |  |  | |
| Direct labor | $ | 3.35 |  |  | |
| Variable manufacturing overhead | $ | 1.75 |  |  | |
| Fixed manufacturing overhead |  |  | $ | 8,800 | |
| Sales commissions | $ | 1.00 |  |  | |
| Variable administrative expense | $ | 0.40 |  |  | |
| Fixed selling and administrative expense |  |  | $ | 4,000 | |

For financial reporting purposes, the total amount of period costs incurred to sell 4,000 units is closest to:

A) $6,400

B) $9,600

C) $4,000

D) $5,600

Answer: B

Explanation:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales commissions | $ | 1.00 |  |
| Variable administrative expense |  | 0.40 |  |
| Variable selling and administrative expense per unit | $ | 1.40 |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Total variable selling and administrative expense  ($1.40 per unit × 4,000 units sold) | $ | 5,600 |  |
| Total fixed selling and administrative expense |  | 4,000 |  |
| Total period (nonmanufacturing) cost | $ | 9,600 |  |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

162) Glew Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.00 | |  |  | |
| Direct labor | $ | 3.35 | |  |  | |
| Variable manufacturing overhead | $ | 1.75 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 8,800 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,000 | |

If 3,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $33,300

B) $31,050

C) $28,050

D) $39,900

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.00 |
| Direct labor |  | 3.35 |
| Direct manufacturing cost per unit (a) | $ | 9.35 |
| Number of units produced (b) |  | 3,000 |
| Total direct manufacturing cost (a) × (b) | $ | 28,050 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

163) Glew Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.00 | |  |  | |
| Direct labor | $ | 3.35 | |  |  | |
| Variable manufacturing overhead | $ | 1.75 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 8,800 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,000 | |

If 3,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $5,250

B) $11,850

C) $8,800

D) $14,050

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.75 per unit × 3,000 units) | $ | 5,250 |
| Total fixed manufacturing overhead cost |  | 8,800 |
| Total indirect manufacturing cost | $ | 14,050 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

164) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

For financial reporting purposes, the total amount of product costs incurred to make 5,000 units is closest to:

A) $72,000

B) $77,000

C) $11,000

D) $61,000

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.05 |
| Direct labor |  | 3.50 |
| Variable manufacturing overhead |  | 1.65 |
| Variable manufacturing cost per unit | $ | 12.20 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost  ($12.20 per unit × 5,000 units produced) | $ | 61,000 |
| Total fixed manufacturing overhead cost |  | 11,000 |
| Total product (manufacturing) cost | $ | 72,000 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

165) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  |
| Direct labor | $ | 3.50 | |  |  |
| Variable manufacturing overhead | $ | 1.65 | |  |  |
| Fixed manufacturing overhead |  |  | | $ | 11,000 |
| Sales commissions | $ | 1.00 | |  |  |
| Variable administrative expense | $ | 0.40 | |  |  |
| Fixed selling and administrative expense |  |  | | $ | 5,500 |

For financial reporting purposes, the total amount of period costs incurred to sell 5,000 units is closest to:

A) $12,500

B) $8,300

C) $7,000

D) $5,500

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 1.00 |
| Variable administrative expense |  | 0.40 |
| Variable selling and administrative expense per unit | $ | 1.40 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense  ($1.40 per unit × 5,000 units sold) | $ | 7,000 |
| Total fixed selling and administrative expense |  | 5,500 |
| Total period (nonmanufacturing) cost | $ | 12,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

166) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If 4,000 units are sold, the variable cost per unit sold is closest to:

A) $13.60

B) $12.20

C) $14.40

D) $16.90

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.05 |
| Direct labor |  | 3.50 |
| Variable manufacturing overhead |  | 1.65 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.40 |
| Variable cost per unit sold | $ | 13.60 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

167) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If 4,000 units are sold, the total variable cost is closest to:

A) $54,400

B) $48,800

C) $57,600

D) $67,600

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.05 |
| Direct labor |  | 3.50 |
| Variable manufacturing overhead |  | 1.65 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.40 |
| Variable cost per unit sold | $ | 13.60 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 13.60 |
| Number of units sold (b) |  | 4,000 |
| Total variable costs (a) × (b) | $ | 54,400 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

168) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If 4,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $14,600

B) $17,600

C) $11,600

D) $23,600

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.65 per unit × 4,000 units) | $ | 6,600 |
| Total fixed manufacturing overhead cost |  | 11,000 |
| Total manufacturing overhead cost (a) | $ | 17,600 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

169) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If the selling price is $18.70 per unit, the contribution margin per unit sold is closest to:

A) $5.10

B) $1.80

C) $4.30

D) $8.15

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
| Selling price per unit |  | $18.70 |
| Direct materials | $7.05 |  |
| Direct labor | 3.50 |  |
| Variable manufacturing overhead | 1.65 |  |
| Sales commissions | 1.00 |  |
| Variable administrative expense | 0.40 |  |
| Variable cost per unit sold |  | 13.60 |
| Contribution margin per unit |  | $5.10 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

170) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If 6,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $73,200

B) $69,300

C) $86,400

D) $63,300

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.05 |
| Direct labor |  | 3.50 |
| Direct manufacturing cost per unit (a) | $ | 10.55 |
| Number of units produced (b) |  | 6,000 |
| Total direct manufacturing cost (a) × (b) | $ | 63,300 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

171) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

If 6,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $23,100

B) $9,900

C) $11,000

D) $20,900

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.65 per unit × 6,000 units) | $ | 9,900 |
| Total fixed manufacturing overhead cost |  | 11,000 |
| Total indirect manufacturing cost | $ | 20,900 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

172) Schwiesow Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 7.05 | |  |  | |
| Direct labor | $ | 3.50 | |  |  | |
| Variable manufacturing overhead | $ | 1.65 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 11,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 5,500 | |

The incremental manufacturing cost that the company will incur if it increases production from 5,000 to 5,001 units is closest to:

A) $14.40

B) $15.10

C) $16.90

D) $12.20

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 7.05 |
| Direct labor |  | 3.50 |
| Variable manufacturing overhead |  | 1.65 |
| Incremental manufacturing cost | $ | 12.20 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

173) Lambeth Corporation has provided the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | |
| Direct materials | $ | 4.90 |  |  | |
| Direct labor | $ | 2.95 |  |  | |
| Variable manufacturing overhead | $ | 1.25 |  |  | |
| Fixed manufacturing overhead |  |  | $ | 8,000 | |
| Sales commissions | $ | 1.00 |  |  | |
| Variable administrative expense | $ | 0.40 |  |  | |
| Fixed selling and administrative expense |  |  | $ | 4,000 | |

If 3,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $26,550

B) $23,550

C) $33,300

D) $27,300

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 4.90 |
| Direct labor |  | 2.95 |
| Direct manufacturing cost per unit (a) | $ | 7.85 |
| Number of units produced (b) |  | 3,000 |
| Total direct manufacturing cost (a) × (b) | $ | 23,550 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

174) Lambeth Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 4.90 | |  |  | |
| Direct labor | $ | 2.95 | |  |  | |
| Variable manufacturing overhead | $ | 1.25 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 8,000 | |
| Sales commissions | $ | 1.00 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,000 | |

If 3,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $8,000

B) $11,750

C) $9,750

D) $3,750

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.25 per unit × 3,000 units) | $ | 3,750 |
| Total fixed manufacturing overhead cost |  | 8,000 |
| Total indirect manufacturing cost | $ | 11,750 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

175) Mccaskell Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.30 |
| Direct labor | $ | 3.65 |
| Variable manufacturing overhead | $ | 1.75 |
| Fixed manufacturing overhead | $ | 9.90 |
| Fixed selling expense | $ | 2.25 |
| Fixed administrative expense | $ | 1.80 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.50 |

If 8,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $79,600

B) $93,600

C) $87,600

D) $172,800

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.30 |
| Direct labor |  | 3.65 |
| Direct manufacturing cost per unit (a) | $ | 9.95 |
| Number of units produced (b) |  | 8,000 |
| Total direct manufacturing cost (a) × (b) | $ | 79,600 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

176) Mccaskell Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.30 |
| Direct labor | $ | 3.65 |
| Variable manufacturing overhead | $ | 1.75 |
| Fixed manufacturing overhead | $ | 9.90 |
| Fixed selling expense | $ | 2.25 |
| Fixed administrative expense | $ | 1.80 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.50 |

If 8,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $14,000

B) $93,200

C) $89,100

D) $103,100

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.75 per unit × 8,000 units) | $ | 14,000 |
| Total fixed manufacturing overhead cost  ($9.90 per unit × 9,000 units\*) |  | 89,100 |
| Total indirect manufacturing cost | $ | 103,100 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 9,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

177) Kesterson Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.20 | |  |  | |
| Direct labor | $ | 3.10 | |  |  | |
| Variable manufacturing overhead | $ | 1.35 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 14,000 | |
| Sales commissions | $ | 1.50 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,500 | |

If 4,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $16,300

B) $25,600

C) $19,400

D) $13,200

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.35 per unit × 4,000 units) | $ | 5,400 |
| Total fixed manufacturing overhead cost |  | 14,000 |
| Total manufacturing overhead cost (a) | $ | 19,400 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

178) Kesterson Corporation has provided the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | |
| Direct materials | $ | 6.20 |  |  | |
| Direct labor | $ | 3.10 |  |  | |
| Variable manufacturing overhead | $ | 1.35 |  |  | |
| Fixed manufacturing overhead |  |  | $ | 14,000 | |
| Sales commissions | $ | 1.50 |  |  | |
| Variable administrative expense | $ | 0.40 |  |  | |
| Fixed selling and administrative expense |  |  | $ | 4,500 | |

If the selling price is $21.90 per unit, the contribution margin per unit sold is closest to:

A) $9.35

B) $12.60

C) $8.45

D) $5.65

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
| Selling price per unit |  | $21.90 |
| Direct materials | $6.20 |  |
| Direct labor | 3.10 |  |
| Variable manufacturing overhead | 1.35 |  |
| Sales commissions | 1.50 |  |
| Variable administrative expense | 0.40 |  |
| Variable cost per unit sold |  | 12.55 |
| Contribution margin per unit |  | $9.35 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

179) Kesterson Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.20 | |  |  | |
| Direct labor | $ | 3.10 | |  |  | |
| Variable manufacturing overhead | $ | 1.35 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 14,000 | |
| Sales commissions | $ | 1.50 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,500 | |

If 6,000 units are produced, the total amount of direct manufacturing cost incurred is closest to:

A) $55,800

B) $63,900

C) $80,700

D) $64,800

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.20 |
| Direct labor |  | 3.10 |
| Direct manufacturing cost per unit (a) | $ | 9.30 |
| Number of units produced (b) |  | 6,000 |
| Total direct manufacturing cost (a) × (b) | $ | 55,800 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

180) Kesterson Corporation has provided the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | |
| Direct materials | $ | 6.20 |  |  | |
| Direct labor | $ | 3.10 |  |  | |
| Variable manufacturing overhead | $ | 1.35 |  |  | |
| Fixed manufacturing overhead |  |  | $ | 14,000 | |
| Sales commissions | $ | 1.50 |  |  | |
| Variable administrative expense | $ | 0.40 |  |  | |
| Fixed selling and administrative expense |  |  | $ | 4,500 | |

If 6,000 units are produced, the total amount of indirect manufacturing cost incurred is closest to:

A) $8,100

B) $24,900

C) $22,100

D) $14,000

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.35 per unit × 6,000 units) | $ | 8,100 |
| Total fixed manufacturing overhead cost |  | 14,000 |
| Total indirect manufacturing cost | $ | 22,100 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

181) Kesterson Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | Cost per Period | | |
| Direct materials | $ | 6.20 | |  |  | |
| Direct labor | $ | 3.10 | |  |  | |
| Variable manufacturing overhead | $ | 1.35 | |  |  | |
| Fixed manufacturing overhead |  |  | | $ | 14,000 | |
| Sales commissions | $ | 1.50 | |  |  | |
| Variable administrative expense | $ | 0.40 | |  |  | |
| Fixed selling and administrative expense |  |  | | $ | 4,500 | |

The incremental manufacturing cost that the company will incur if it increases production from 5,000 to 5,001 units is closest to:

A) $10.65

B) $13.45

C) $16.25

D) $13.95

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.20 |
| Direct labor |  | 3.10 |
| Variable manufacturing overhead |  | 1.35 |
| Incremental manufacturing cost | $ | 10.65 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

182) Vignana Corporation manufactures and sells hand-painted clay figurines of popular sports heroes. Shown below are some of the costs incurred by Vignana for last year:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Cost of clay used in production | $ | 65,000 |
| Wages paid to the workers who paint the figurines | $ | 90,000 |
| Wages paid to the sales manager's secretary | $ | 22,000 |
| Cost of junk mail advertising | $ | 47,000 |

What is the total of the direct costs above?

A) $65,000

B) $112,000

C) $155,000

D) $202,000

Answer: C

Explanation: Direct costs include the cost of clay used in production and the wages paid to the workers who paint the figurines.

$65,000 + $90,000 = $155,000

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

183) Vignana Corporation manufactures and sells hand-painted clay figurines of popular sports heroes. Shown below are some of the costs incurred by Vignana for last year:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Cost of clay used in production | $ | 65,000 |
| Wages paid to the workers who paint the figurines | $ | 90,000 |
| Wages paid to the sales manager's secretary | $ | 22,000 |
| Cost of junk mail advertising | $ | 47,000 |

What is the total of the product costs above?

A) $0

B) $69,000

C) $155,000

D) $159,000

Answer: C

Explanation: Product costs include the cost of clay used in production and the wages paid to the workers who paint the figurines. $65,000 + $90,000 = $155,000

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

184) Vignana Corporation manufactures and sells hand-painted clay figurines of popular sports heroes. Shown below are some of the costs incurred by Vignana for last year:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Cost of clay used in production | $ | 65,000 |
| Wages paid to the workers who paint the figurines | $ | 90,000 |
| Wages paid to the sales manager's secretary | $ | 22,000 |
| Cost of junk mail advertising | $ | 47,000 |

What is the total of the conversion costs above?

A) $65,000

B) $69,000

C) $90,000

D) $155,000

Answer: C

Explanation: Conversion costs include only the wages paid to the workers who paint the figurines.

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

185) A partial listing of costs incurred at Archut Corporation during September appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 113,000 |
| Utilities, factory | $ | 5,000 |
| Administrative salaries | $ | 81,000 |
| Indirect labor | $ | 25,000 |
| Sales commissions | $ | 48,000 |
| Depreciation of production equipment | $ | 20,000 |
| Depreciation of administrative equipment | $ | 30,000 |
| Direct labor | $ | 129,000 |
| Advertising | $ | 135,000 |

The total of the manufacturing overhead costs listed above for September is:

A) $586,000

B) $50,000

C) $292,000

D) $30,000

Answer: B

Explanation: Manufacturing overhead includes: Utilities, factory; Indirect labor; and Depreciation of production equipment. $5,000 + $25,000 + $20,000 = $50,000

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

186) A partial listing of costs incurred at Archut Corporation during September appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 113,000 |
| Utilities, factory | $ | 5,000 |
| Administrative salaries | $ | 81,000 |
| Indirect labor | $ | 25,000 |
| Sales commissions | $ | 48,000 |
| Depreciation of production equipment | $ | 20,000 |
| Depreciation of administrative equipment | $ | 30,000 |
| Direct labor | $ | 129,000 |
| Advertising | $ | 135,000 |

The total of the product costs listed above for September is:

A) $292,000

B) $294,000

C) $50,000

D) $586,000

Answer: A

Explanation: Product costs include: Direct materials; Utilities, factory; Indirect labor; Depreciation of production equipment; and Direct labor. $113,000 + $5,000 + $25,000 + $20,000 + $129,000 = $292,000

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

187) A partial listing of costs incurred at Archut Corporation during September appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 113,000 |
| Utilities, factory | $ | 5,000 |
| Administrative salaries | $ | 81,000 |
| Indirect labor | $ | 25,000 |
| Sales commissions | $ | 48,000 |
| Depreciation of production equipment | $ | 20,000 |
| Depreciation of administrative equipment | $ | 30,000 |
| Direct labor | $ | 129,000 |
| Advertising | $ | 135,000 |

The total of the period costs listed above for September is:

A) $294,000

B) $344,000

C) $292,000

D) $50,000

Answer: A

Explanation: Period costs include: Administrative salaries; Sales commissions; Depreciation of administrative equipment; and Advertising. $81,000 + $48,000 + $30,000 + $135,000 = $294,000

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

188) A partial listing of costs incurred during March at Febbo Corporation appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Factory supplies | $ | 9,000 |
| Administrative wages and salaries | $ | 85,000 |
| Direct materials | $ | 126,000 |
| Sales staff salaries | $ | 30,000 |
| Factory depreciation | $ | 33,000 |
| Corporate headquarters building rent | $ | 43,000 |
| Indirect labor | $ | 26,000 |
| Marketing | $ | 65,000 |
| Direct labor | $ | 99,000 |

The total of the period costs listed above for March is:

A) $68,000

B) $293,000

C) $291,000

D) $223,000

Answer: D

Explanation: Period costs include administrative wages and salaries, sales staff salaries, corporate headquarters building rent, and marketing. $85,000 + $30,000 + $43,000 + $65,000 = $223,000

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

189) A partial listing of costs incurred during March at Febbo Corporation appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Factory supplies | $ | 9,000 |
| Administrative wages and salaries | $ | 85,000 |
| Direct materials | $ | 126,000 |
| Sales staff salaries | $ | 30,000 |
| Factory depreciation | $ | 33,000 |
| Corporate headquarters building rent | $ | 43,000 |
| Indirect labor | $ | 26,000 |
| Marketing | $ | 65,000 |
| Direct labor | $ | 99,000 |

The total of the manufacturing overhead costs listed above for March is:

A) $68,000

B) $35,000

C) $516,000

D) $293,000

Answer: A

Explanation: Manufacturing overhead costs include factory supplies, factory depreciation, and indirect labor. $9,000 + $33,000 + $26,000 = $68,000

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

190) A partial listing of costs incurred during March at Febbo Corporation appears below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Factory supplies | $ | 9,000 |
| Administrative wages and salaries | $ | 85,000 |
| Direct materials | $ | 126,000 |
| Sales staff salaries | $ | 30,000 |
| Factory depreciation | $ | 33,000 |
| Corporate headquarters building rent | $ | 43,000 |
| Indirect labor | $ | 26,000 |
| Marketing | $ | 65,000 |
| Direct labor | $ | 99,000 |

The total of the product costs listed above for March is:

A) $516,000

B) $68,000

C) $293,000

D) $223,000

Answer: C

Explanation: Product costs include factory supplies, direct materials, factory depreciation, indirect labor, and direct labor. $9,000 + $126,000 + $33,000 + $26,000 + $99,000 = $293,000

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

191) Fasheh Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Average Cost per Unit | | |
| Direct materials | $ | 5.50 |  |
| Direct labor | $ | 3.90 |  |
| Variable manufacturing overhead | $ | 1.30 |  |
| Fixed manufacturing overhead | $ | 13.50 |  |
| Fixed selling expense | $ | 2.25 |  |
| Fixed administrative expense | $ | 1.80 |  |
| Sales commissions | $ | 0.50 |  |
| Variable administrative expense | $ | 0.45 |  |

If 10,000 units are produced, the average fixed manufacturing cost per unit produced is closest to:

A) $15.00

B) $12.83

C) $13.50

D) $12.15

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total fixed manufacturing overhead cost  ($13.50 per unit × 9,000 units\*) (a) | $ | 121,500 |
| Number of units produced (b) |  | 10,000 |
| Average fixed manufacturing cost per unit produced  (a) ÷ (b) | $ | 12.15 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 9,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

192) Fasheh Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.50 |
| Direct labor | $ | 3.90 |
| Variable manufacturing overhead | $ | 1.30 |
| Fixed manufacturing overhead | $ | 13.50 |
| Fixed selling expense | $ | 2.25 |
| Fixed administrative expense | $ | 1.80 |
| Sales commissions | $ | 0.50 |
| Variable administrative expense | $ | 0.45 |

If 10,000 units are produced, the total amount of fixed manufacturing cost incurred is closest to:

A) $128,250

B) $121,500

C) $148,500

D) $135,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Fixed manufacturing overhead per unit | $ | 13.50 |
| Number of units produced\* |  | 9,000 |
| Total fixed manufacturing overhead cost | $ | 121,500 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 9,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

193) Fasheh Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.50 |
| Direct labor | $ | 3.90 |
| Variable manufacturing overhead | $ | 1.30 |
| Fixed manufacturing overhead | $ | 13.50 |
| Fixed selling expense | $ | 2.25 |
| Fixed administrative expense | $ | 1.80 |
| Sales commissions | $ | 0.50 |
| Variable administrative expense | $ | 0.45 |

If 10,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $180,500

B) $134,500

C) $157,500

D) $146,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost  ($1.30 per unit × 10,000 units) | $ | 13,000 |
| Total fixed manufacturing overhead cost  ($13.50 per unit × 9,000 units\*) |  | 121,500 |
| Total manufacturing overhead cost | $ | 134,500 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 9,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

194) Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.40 |
| Direct labor | $ | 3.55 |
| Variable manufacturing overhead | $ | 1.70 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.60 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.40 |

If 5,000 units are sold, the variable cost per unit sold is closest to:

A) $13.65

B) $10.65

C) $16.05

D) $12.05

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 5.40 |
| Direct labor |  | 3.55 |
| Variable manufacturing overhead |  | 1.70 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.40 |
| Variable cost per unit sold | $ | 12.05 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

195) Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.40 |
| Direct labor | $ | 3.55 |
| Variable manufacturing overhead | $ | 1.70 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.60 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.40 |

If 5,000 units are sold, the total variable cost is closest to:

A) $53,250

B) $68,250

C) $80,250

D) $60,250

Answer: D

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 5.40 |
| Direct labor |  | 3.55 |
| Variable manufacturing overhead |  | 1.70 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.40 |
| Variable cost per unit sold | $ | 12.05 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 12.05 |
| Number of units sold (b) |  | 5,000 |
| Total variable costs (a) × (b) | $ | 60,250 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

196) Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.40 |
| Direct labor | $ | 3.55 |
| Variable manufacturing overhead | $ | 1.70 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.60 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.40 |

If 5,000 units are produced, the average fixed manufacturing cost per unit produced is closest to:

A) $3.75

B) $2.40

C) $2.70

D) $3.00

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total fixed manufacturing overhead cost  ($3.00 per unit × 4,000 units\*) (a) | $ | 12,000 |
| Number of units produced (b) |  | 5,000 |
| Average fixed manufacturing cost per unit produced (a) ÷ (b) | $ | 2.40 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

197) Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.40 |
| Direct labor | $ | 3.55 |
| Variable manufacturing overhead | $ | 1.70 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.60 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.40 |

If 5,000 units are produced, the total amount of fixed manufacturing cost incurred is closest to:

A) $13,500

B) $18,000

C) $12,000

D) $15,000

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Fixed manufacturing overhead per unit | $ | 3.00 |
| Number of units produced\* |  | 4,000 |
| Total fixed manufacturing overhead cost | $ | 12,000 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

198) Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.40 |
| Direct labor | $ | 3.55 |
| Variable manufacturing overhead | $ | 1.70 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.60 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.00 |
| Variable administrative expense | $ | 0.40 |

If 5,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $20,500

B) $23,000

C) $18,000

D) $19,250

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost |  |  |
| ($1.70 per unit × 5,000 units) | $ | 8,500 |
| Total fixed manufacturing overhead cost |  |  |
| ($3.00 per unit × 4,000 units\*) |  | 12,000 |
| Total manufacturing overhead cost (a) | $ | 20,500 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

199) Wessner Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.20 |  |  |  |  |
| Direct labor | $ | 2.80 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.45 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 12,000 |  |
| Sales commissions | $ | 1.00 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,000 |  |

If 5,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $18,000

B) $19,250

C) $18,625

D) $20,500

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost |  |  |
| ($1.45 per unit × 5,000 units) | $ | 7,250 |
| Total fixed manufacturing overhead cost |  | 12,000 |
| Total manufacturing overhead cost (a) | $ | 19,250 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

200) Wessner Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.20 |  |  |  |  |
| Direct labor | $ | 2.80 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.45 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 12,000 |  |
| Sales commissions | $ | 1.00 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,000 |  |

If the selling price is $25.00 per unit, the contribution margin per unit sold is closest to:

A) $9.00

B) $16.00

C) $11.55

D) $13.00

Answer: D

Explanation:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | |  | | |
| Selling price per unit |  |  | |  | | $ | 25.00 | |
| Direct materials | $ | 6.20 | |  | |  |  | |
| Direct labor |  | 2.80 | |  | |  |  | |
| Variable manufacturing overhead |  | 1.45 | |  | |  |  | |
| Sales commissions |  | 1.00 | |  | |  |  | |
| Variable administrative expense |  | 0.55 | |  | |  |  | |
| Variable cost per unit sold |  |  | |  | |  | 12.00 | |
| Contribution margin per unit |  |  | |  | | $ | 13.00 | |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

201) Wessner Corporation has provided the following information:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | | | Cost per Period | | |
| Direct materials | $ | 6.20 |  |  |  |  |
| Direct labor | $ | 2.80 |  |  |  |  |
| Variable manufacturing overhead | $ | 1.45 |  |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 12,000 |  |
| Sales commissions | $ | 1.00 |  |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,000 |  |

The incremental manufacturing cost that the company will incur if it increases production from 4,000 to 4,001 units is closest to:

A) $16.00

B) $14.05

C) $10.45

D) $13.45

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.20 |
| Direct labor |  | 2.80 |
| Variable manufacturing overhead |  | 1.45 |
| Incremental manufacturing cost | $ | 10.45 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

202) Pedregon Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.35 |  |  |  |
| Direct labor | $ | 3.75 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 15,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,500 |

If 4,000 units are sold, the variable cost per unit sold is closest to:

A) $16.55

B) $11.60

C) $12.65

D) $14.60

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.35 |
| Direct labor |  | 3.75 |
| Variable manufacturing overhead |  | 1.50 |
| Sales commissions |  | 0.50 |
| Variable administrative expense |  | 0.55 |
| Variable cost per unit sold | $ | 12.65 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

203) Pedregon Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.35 |  |  |  |
| Direct labor | $ | 3.75 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 15,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,500 |

If 4,000 units are sold, the total variable cost is closest to:

A) $58,400

B) $66,200

C) $50,600

D) $46,400

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.35 |
| Direct labor |  | 3.75 |
| Variable manufacturing overhead |  | 1.50 |
| Sales commissions |  | 0.50 |
| Variable administrative expense |  | 0.55 |
| Variable cost per unit sold | $ | 12.65 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 12.65 |
| Number of units sold (b) |  | 4,000 |
| Total variable costs (a) × (b) | $ | 50,600 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

204) Pedregon Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.35 |  |  |  |
| Direct labor | $ | 3.75 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 15,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,500 |

If 4,000 units are produced, the total amount of manufacturing overhead cost is closest to:

A) $21,000

B) $14,000

C) $28,000

D) $17,500

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing overhead cost |  |  |
| ($1.50 per unit × 4,000 units) | $ | 6,000 |
| Total fixed manufacturing overhead cost |  | 15,000 |
| Total manufacturing overhead cost (a) | $ | 21,000 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

205) Pedregon Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.35 |  |  |  |
| Direct labor | $ | 3.75 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 15,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.55 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,500 |

If the selling price is $20.60 per unit, the contribution margin per unit sold is closest to:

A) $4.05

B) $6.00

C) $7.95

D) $10.50

Answer: C

Explanation:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | |  | | |
| Selling price per unit |  |  | |  | | $ | 20.60 | |
| Direct materials | $ | 6.35 | |  | |  |  | |
| Direct labor |  | 3.75 | |  | |  |  | |
| Variable manufacturing overhead |  | 1.50 | |  | |  |  | |
| Sales commissions |  | 0.50 | |  | |  |  | |
| Variable administrative expense |  | 0.55 | |  | |  |  | |
| Variable cost per unit sold |  |  | |  | |  | 12.65 | |
| Contribution margin per unit |  |  | |  | | $ | 7.95 | |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

206) Fassino Corporation reported the following data for the month of November:

|  |  |  |
| --- | --- | --- |
|  |  | |
| Direct materials | $ | 51,000 | |
| Direct labor cost | $ | 54,000 | |
| Manufacturing overhead | $ | 82,000 | |
| Selling expense | $ | 18,000 | |
| Administrative expense | $ | 42,000 | |

The conversion cost for November was:

A) $187,000

B) $112,000

C) $136,000

D) $140,000

Answer: C

Explanation: Conversion cost = Direct labor + Manufacturing overhead = $54,000 + $82,000 = $136,000

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

207) Fassino Corporation reported the following data for the month of November:

|  |  |  |
| --- | --- | --- |
| Direct materials | $ | 51,000 |
| Direct labor cost | $ | 54,000 |
| Manufacturing overhead | $ | 82,000 |
| Selling expense | $ | 18,000 |
| Administrative expense | $ | 42,000 |

The prime cost for November was:

A) $136,000

B) $60,000

C) $105,000

D) $112,000

Answer: C

Explanation: Prime cost = Direct materials + Direct labor = $51,000 + $54,000 = $105,000

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

208) Management of Mcgibboney Corporation has asked your help as an intern in preparing some key reports for November. Direct materials cost was $42,000, direct labor cost was $25,000, and manufacturing overhead was $62,000.  Selling expense was $21,000 and administrative expense was $38,000.

The conversion cost for November was:

A) $116,000

B) $79,000

C) $87,000

D) $129,000

Answer: C

Explanation: Conversion cost = Direct labor + Manufacturing overhead = $25,000 + $62,000 = $87,000

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

209) Management of Mcgibboney Corporation has asked your help as an intern in preparing some key reports for November. Direct materials cost was $42,000, direct labor cost was $25,000, and manufacturing overhead was $62,000.  Selling expense was $21,000 and administrative expense was $38,000.

The prime cost for November was:

A) $79,000

B) $59,000

C) $67,000

D) $87,000

Answer: C

Explanation: Prime cost = Direct materials + Direct labor = $42,000 + $25,000 = $67,000

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

210) Barredo Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.60 |
| Direct labor | $ | 3.65 |
| Variable manufacturing overhead | $ | 1.65 |
| Fixed manufacturing overhead | $ | 2.80 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 0.50 |
| Variable administrative expense | $ | 0.45 |

If 4,000 units are sold, the variable cost per unit sold is closest to:

A) $16.75

B) $12.85

C) $11.90

D) $14.70

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.60 |
| Direct labor |  | 3.65 |
| Variable manufacturing overhead |  | 1.65 |
| Sales commissions |  | 0.50 |
| Variable administrative expense |  | 0.45 |
| Variable cost per unit sold | $ | 12.85 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

211) Barredo Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 6.60 |
| Direct labor | $ | 3.65 |
| Variable manufacturing overhead | $ | 1.65 |
| Fixed manufacturing overhead | $ | 2.80 |
| Fixed selling expense | $ | 0.70 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 0.50 |
| Variable administrative expense | $ | 0.45 |

If 4,000 units are sold, the total variable cost is closest to:

A) $67,000

B) $47,600

C) $51,400

D) $58,800

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.60 |
| Direct labor |  | 3.65 |
| Variable manufacturing overhead |  | 1.65 |
| Sales commissions |  | 0.50 |
| Variable administrative expense |  | 0.45 |
| Variable cost per unit sold | $ | 12.85 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 12.85 |
| Number of units sold (b) |  | 4,000 |
| Total variable costs (a) × (b) | $ | 51,400 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

212) Varela Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.95 |
| Direct labor | $ | 3.30 |
| Variable manufacturing overhead | $ | 1.60 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.50 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.50 |

For financial reporting purposes, the total amount of product costs incurred to make 4,000 units is closest to:

A) $43,400

B) $55,400

C) $59,400

D) $12,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 5.95 |
| Direct labor |  | 3.30 |
| Variable manufacturing overhead |  | 1.60 |
| Variable manufacturing cost per unit | $ | 10.85 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost |  |  |
| ($10.85 per unit × 4,000 units produced) | $ | 43,400 |
| Total fixed manufacturing overhead cost |  |  |
| ($3.00 per unit × 4,000 units produced) |  | 12,000 |
| Total product (manufacturing) cost | $ | 55,400 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

213) Varela Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average Cost per Unit | |
| Direct materials | $ | 5.95 |
| Direct labor | $ | 3.30 |
| Variable manufacturing overhead | $ | 1.60 |
| Fixed manufacturing overhead | $ | 3.00 |
| Fixed selling expense | $ | 0.50 |
| Fixed administrative expense | $ | 0.40 |
| Sales commissions | $ | 1.50 |
| Variable administrative expense | $ | 0.50 |

For financial reporting purposes, the total amount of period costs incurred to sell 4,000 units is closest to:

A) $7,700

B) $11,600

C) $3,600

D) $8,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 1.50 |
| Variable administrative expense |  | 0.50 |
| Variable selling and administrative expense per unit | $ | 2.00 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense |  |  |
| ($2.00 per unit × 4,000 units sold) | $ | 8,000 |
| Total fixed selling and administrative expense |  |  |
| ($0.50 per unit × 4,000 units + $0.40 per unit × 4,000 units) |  | 3,600 |
| Total period (nonmanufacturing) cost | $ | 11,600 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

214) Lagle Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 4.85 |  |  |  |
| Direct labor | $ | 3.35 |  |  |  |
| Variable manufacturing overhead | $ | 1.35 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 8,000 |
| Sales commissions | $ | 1.50 |  |  |  |
| Variable administrative expense | $ | 0.45 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,400 |

For financial reporting purposes, the total amount of product costs incurred to make 4,000 units is closest to:

A) $46,200

B) $38,200

C) $8,000

D) $50,200

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 4.85 |
| Direct labor |  | 3.35 |
| Variable manufacturing overhead |  | 1.35 |
| Variable manufacturing cost per unit | $ | 9.55 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost |  |  |
| ($9.55 per unit × 4,000 units produced) | $ | 38,200 |
| Total fixed manufacturing overhead cost |  | 8,000 |
| Total product (manufacturing) cost | $ | 46,200 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

215) Lagle Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 4.85 |  |  |  |
| Direct labor | $ | 3.35 |  |  |  |
| Variable manufacturing overhead | $ | 1.35 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 8,000 |
| Sales commissions | $ | 1.50 |  |  |  |
| Variable administrative expense | $ | 0.45 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,400 |

For financial reporting purposes, the total amount of period costs incurred to sell 4,000 units is closest to:

A) $12,200

B) $7,800

C) $4,400

D) $8,100

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 1.50 |
| Variable administrative expense |  | 0.45 |
| Variable selling and administrative expense per unit | $ | 1.95 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense |  |  |
| ($1.95 per unit × 4,000 units sold) | $ | 7,800 |
| Total fixed selling and administrative expense |  | 4,400 |
| Total period (nonmanufacturing) cost | $ | 12,200 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

216) Lagle Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 4.85 |  |  |  |
| Direct labor | $ | 3.35 |  |  |  |
| Variable manufacturing overhead | $ | 1.35 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 8,000 |
| Sales commissions | $ | 1.50 |  |  |  |
| Variable administrative expense | $ | 0.45 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,400 |

If 5,000 units are sold, the variable cost per unit sold is closest to:

A) $14.60

B) $11.50

C) $9.55

D) $11.55

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 4.85 |
| Direct labor |  | 3.35 |
| Variable manufacturing overhead |  | 1.35 |
| Sales commissions |  | 1.50 |
| Variable administrative expense |  | 0.45 |
| Variable cost per unit sold | $ | 11.50 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

217) Lagle Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 4.85 |  |  |  |
| Direct labor | $ | 3.35 |  |  |  |
| Variable manufacturing overhead | $ | 1.35 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 8,000 |
| Sales commissions | $ | 1.50 |  |  |  |
| Variable administrative expense | $ | 0.45 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 4,400 |

If 5,000 units are sold, the total variable cost is closest to:

A) $47,750

B) $73,000

C) $57,500

D) $57,750

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 4.85 |
| Direct labor |  | 3.35 |
| Variable manufacturing overhead |  | 1.35 |
| Sales commissions |  | 1.50 |
| Variable administrative expense |  | 0.45 |
| Variable cost per unit sold | $ | 11.50 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 11.50 |
| Number of units sold (b) |  | 5,000 |
| Total variable costs (a) × (b) | $ | 57,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

218) Bowering Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.60 |  |  |  |
| Direct labor | $ | 3.85 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 81,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.50 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 44,550 |

For financial reporting purposes, the total amount of product costs incurred to make 9,000 units is closest to:

A) $81,000

B) $188,550

C) $107,550

D) $197,550

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.60 |
| Direct labor |  | 3.85 |
| Variable manufacturing overhead |  | 1.50 |
| Variable manufacturing cost per unit | $ | 11.95 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable manufacturing cost |  |  |
| ($11.95 per unit × 9,000 units produced) | $ | 107,550 |
| Total fixed manufacturing overhead cost |  | 81,000 |
| Total product (manufacturing) cost | $ | 188,550 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

219) Bowering Corporation has provided the following information:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost per Unit | |  | Cost per Period | |
| Direct materials | $ | 6.60 |  |  |  |
| Direct labor | $ | 3.85 |  |  |  |
| Variable manufacturing overhead | $ | 1.50 |  |  |  |
| Fixed manufacturing overhead |  |  |  | $ | 81,000 |
| Sales commissions | $ | 0.50 |  |  |  |
| Variable administrative expense | $ | 0.50 |  |  |  |
| Fixed selling and administrative expense |  |  |  | $ | 44,550 |

For financial reporting purposes, the total amount of period costs incurred to sell 9,000 units is closest to:

A) $35,700

B) $9,000

C) $53,550

D) $44,550

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales commissions | $ | 0.50 |
| Variable administrative expense |  | 0.50 |
| Variable selling and administrative expense per unit | $ | 1.00 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Total variable selling and administrative expense |  |  |
| ($1.00 per unit × 9,000 units sold) | $ | 9,000 |
| Total fixed selling and administrative expense |  | 44,550 |
| Total period (nonmanufacturing) cost | $ | 53,550 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

220) Mark is an engineer who has designed a telecommunications device. He is convinced that there is a big potential market for the device. Accordingly, he has decided to quit his present job and start a company to manufacture and market the device.

The salary that Mark earns at his present employ is:

A) a variable cost

B) a fixed cost

C) a product cost

D) an opportunity cost

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

221) Mark is an engineer who has designed a telecommunications device. He is convinced that there is a big potential market for the device. Accordingly, he has decided to quit his present job and start a company to manufacture and market the device.

Mark purchased a machine two years ago to make experimental boards. The machine will be used to manufacture the new board. The cost of this machine is:

A) an opportunity cost

B) a sunk cost

C) a differential cost

D) a period cost

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

222) Mark is an engineer who has designed a telecommunications device. He is convinced that there is a big potential market for the device. Accordingly, he has decided to quit his present job and start a company to manufacture and market the device.

The cost of the raw materials that will be used in manufacturing the computer board is:

A) a sunk cost

B) a fixed cost

C) a period cost

D) a variable cost

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

223) Mark is an engineer who has designed a telecommunications device. He is convinced that there is a big potential market for the device. Accordingly, he has decided to quit his present job and start a company to manufacture and market the device.

Rent on the administrative office space is:

A) a variable cost

B) an opportunity cost

C) a period cost

D) a product cost

Answer: C

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

224) Mark is an engineer who has designed a telecommunications device. He is convinced that there is a big potential market for the device. Accordingly, he has decided to quit his present job and start a company to manufacture and market the device.

Property taxes on the building that will be purchased to house the manufacturing facility are:

A) a product cost

B) a variable cost

C) an opportunity cost

D) a period cost

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

225) At a sales volume of 38,000 units, Tirri Corporation's property taxes (a cost that is fixed with respect to sales volume) total $733,400.

To the nearest whole dollar, what should be the total property taxes at a sales volume of 37,200 units? (Assume that this sales volume is within the relevant range.)

A) $725,680

B) $733,400

C) $749,172

D) $717,960

Answer: B

Explanation: $733,400; A fixed cost is constant in total within the relevant range.

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

226) At a sales volume of 38,000 units, Tirri Corporation's property taxes (a cost that is fixed with respect to sales volume) total $733,400.

To the nearest whole cent, what should be the average property tax per unit at a sales volume of 37,300 units? (Assume that this sales volume is within the relevant range.)

A) $19.30

B) $19.66

C) $19.72

D) $19.48

Answer: B

Explanation: Average property tax per unit = Total property tax ÷ Unit sales = $733,400 ÷ 37,300 units = $19.66 per unit.

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

227) Leas Corporation staffs a helpline to answer questions from customers. The costs of operating the helpline are variable with respect to the number of calls in a month. At a volume of 25,000 calls in a month, the costs of operating the helpline total $452,500.

To the nearest whole dollar, what should be the total cost of operating the helpline costs at a volume of 23,900 calls in a month? (Assume that this call volume is within the relevant range.) **(Round intermediate calculations to 2 decimal places.)**

A) $442,545

B) $452,500

C) $473,326

D) $432,590

Answer: D

Explanation: Helpline cost per unit = Total helpline costs ÷ Number of calls

= $452,500 ÷ 25,000 calls

= $18.10 per call

Total helpline cost = Helpline cost per unit × Number of calls

= $18.10 per call × 23,900 calls = $432,590

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

228) Leas Corporation staffs a helpline to answer questions from customers. The costs of operating the helpline are variable with respect to the number of calls in a month. At a volume of 25,000 calls in a month, the costs of operating the helpline total $452,500.

To the nearest whole cent, what should be the average cost of operating the helpline per call at a volume of 25,300 calls in a month? (Assume that this call volume is within the relevant range.)

A) $18.93

B) $18.00

C) $17.89

D) $18.10

Answer: D

Explanation: Helpline cost per unit = Total helpline costs ÷ Number of calls

= $452,500 ÷ 25,000 calls = $18.10 per call

The average helpline cost per call is constant within the relevant range.

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

229) Dizzy Amusement Park is open from 8:00 am till midnight every day of the year. Dizzy charges its patrons a daily entrance fee of $30 per person which gives them unlimited access to all of the park's 35 rides.

Dizzy gives out a free T-shirt to every 100th customer entering the park. The cost of this T-shirt would best be described as a:

A) fixed cost

B) mixed cost

C) step-variable cost

D) true variable cost

Answer: C

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

230) Dizzy Amusement Park is open from 8:00 am till midnight every day of the year. Dizzy charges its patrons a daily entrance fee of $30 per person which gives them unlimited access to all of the park's 35 rides.

For liability insurance, Dizzy pays a set monthly fee plus a small additional amount for every patron entering the park. The cost of liability insurance would best be described as a:

A) fixed cost

B) mixed cost

C) step-variable cost

D) true variable cost

Answer: B

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

231) Dizzy Amusement Park is open from 8:00 am till midnight every day of the year. Dizzy charges its patrons a daily entrance fee of $30 per person which gives them unlimited access to all of the park's 35 rides.

Dizzy employees a certified operator for each of its 35 rides. Each operator is paid $20 per hour. The cost of the certified operators would best be described as a:

A) fixed cost

B) mixed cost

C) step-variable cost

D) true variable cost

Answer: A

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

232) Dizzy Amusement Park is open from 8:00 am till midnight every day of the year. Dizzy charges its patrons a daily entrance fee of $30 per person which gives them unlimited access to all of the park's 35 rides.

Dizzy donates $2 of every entrance fee to a local homeless shelter. This charitable contribution would best be described as a:

A) fixed cost

B) mixed cost

C) step-variable cost

D) true variable cost

Answer: D

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

233) At a sales volume of 20,000 units, Choice Corporation's sales commissions (a cost that is variable with respect to sales volume) total $132,000.

To the nearest whole dollar, what should be the total sales commissions at a sales volume of 18,400 units? (Assume that this sales volume is within the relevant range.) **(Round intermediate calculations to 2 decimal places.)**

A) $126,720

B) $132,000

C) $121,440

D) $143,478

Answer: C

Explanation: Sales commission per unit = Total sales commissions ÷ Unit sales = $132,000 ÷ 20,000 = $6.60

Total sales commission = Sales commission per unit × Unit sales = $6.60 × 18,400 = $121,440

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

234) At a sales volume of 20,000 units, Choice Corporation's sales commissions (a cost that is variable with respect to sales volume) total $132,000.

To the nearest whole cent, what should be the average sales commission per unit at a sales volume of 18,500 units? (Assume that this sales volume is within the relevant range.)

A) $6.60

B) $6.87

C) $7.17

D) $7.14

Answer: A

Explanation: Sales commission per unit = Total sales commissions ÷ Unit sales = $132,000 ÷ 20,000 = $6.60

The average sales commission per unit is constant within the relevant range.

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

235) Adens Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average  Cost per Unit | |
| Direct materials | $ | 6.25 | |
| Direct labor | $ | 2.80 | |
| Variable manufacturing overhead | $ | 1.55 | |
| Fixed manufacturing overhead | $ | 2.40 | |
| Fixed selling expense | $ | 0.50 | |
| Fixed administrative expense | $ | 0.40 | |
| Sales commissions | $ | 1.00 | |
| Variable administrative expense | $ | 0.50 | |

If 5,000 units are sold, the variable cost per unit sold is closest to:

A) $13.00

B) $10.60

C) $12.10

D) $15.40

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.25 |
| Direct labor |  | 2.80 |
| Variable manufacturing overhead |  | 1.55 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.50 |
| Variable cost per unit sold | $ | 12.10 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

236) Adens Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average  Cost per Unit | |
| Direct materials | $ | 6.25 | |
| Direct labor | $ | 2.80 | |
| Variable manufacturing overhead | $ | 1.55 | |
| Fixed manufacturing overhead | $ | 2.40 | |
| Fixed selling expense | $ | 0.50 | |
| Fixed administrative expense | $ | 0.40 | |
| Sales commissions | $ | 1.00 | |
| Variable administrative expense | $ | 0.50 | |

If 5,000 units are sold, the total variable cost is closest to:

A) $53,000

B) $65,000

C) $60,500

D) $77,000

Answer: C

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 6.25 |
| Direct labor |  | 2.80 |
| Variable manufacturing overhead |  | 1.55 |
| Sales commissions |  | 1.00 |
| Variable administrative expense |  | 0.50 |
| Variable cost per unit sold | $ | 12.10 |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Variable cost per unit sold (a) | $ | 12.10 |
| Number of units sold (b) |  | 5,000 |
| Total variable costs (a) × (b) | $ | 60,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

237) Batterson Corporation leases its corporate headquarters building. This lease cost is fixed with respect to the company's sales volume. In a recent month in which the sales volume was 28,000 units, the lease cost was $697,200.

To the nearest whole dollar, what should be the total lease cost at a sales volume of 29,200 units in a month? (Assume that this sales volume is within the relevant range.)

A) $712,140

B) $697,200

C) $727,080

D) $668,548

Answer: B

Explanation: $697,200; A fixed cost is constant in total within the relevant range.

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

238) Batterson Corporation leases its corporate headquarters building. This lease cost is fixed with respect to the company's sales volume. In a recent month in which the sales volume was 28,000 units, the lease cost was $697,200.

To the nearest whole cent, what should be the average lease cost per unit at a sales volume of 26,400 units in a month? (Assume that this sales volume is within the relevant range.)

A) $25.66

B) $24.90

C) $23.88

D) $26.41

Answer: D

Explanation: Average lease cost per unit = Total lease cost ÷ Unit sales

= $697,200 ÷ 26,400 units

= $26.41 per unit

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

239) Oerther Corporation reports that at an activity level of 5,000 units, its total variable cost is $131,750 and its total fixed cost is $31,200.

What would be the total variable cost at an activity level of 5,200 units? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $137,020

B) $131,750

C) $162,950

D) $32,448

Answer: A

Explanation: Variable cost per unit = Total variable cost ÷ Total activity

= $131,750 ÷ 5,000 units

= $26.35 per unit

Total variable cost = Variable cost per unit × Total activity

= $26.35 per unit × 5,200 units

= $137,020

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

240) Oerther Corporation reports that at an activity level of 5,000 units, its total variable cost is $131,750 and its total fixed cost is $31,200.

What would be the average fixed cost per unit at an activity level of 5,200 units? Assume that this level of activity is within the relevant range.

A) $6.24

B) $6.00

C) $14.94

D) $32.59

Answer: B

Explanation: Average fixed cost per unit = Total fixed cost ÷ Total activity

= $31,200 ÷ 5,200 units

= $6.00 per unit

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

241) At an activity level of 9,000 machine-hours in a month, Moffatt Corporation's total variable maintenance cost is $390,240 and its total fixed maintenance cost is $368,280.

What would be the total variable maintenance cost at an activity level of 9,300 machine-hours in a month? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $758,520

B) $403,248

C) $390,240

D) $380,556

Answer: B

Explanation:

Variable maintenance cost per unit = Total variable maintenance cost ÷ Total activity

= $390,240 ÷ 9,000 machine-hours

Total variable maintenance cost = Variable maintenance cost per unit × Total activity

= $43.36 per machine-hour × 9,300 machine-hours

= $403,248

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

242) At an activity level of 9,000 machine-hours in a month, Moffatt Corporation's total variable maintenance cost is $390,240 and its total fixed maintenance cost is $368,280.

What would be the average fixed maintenance cost per unit at an activity level of 9,300 machine-hours in a month? Assume that this level of activity is within the relevant range.

A) $40.92

B) $84.28

C) $39.60

D) $54.93

Answer: C

Explanation: Average fixed maintenance cost = Total fixed maintenance cost ÷ Total activity = $368,280 ÷ 9,300 machine-hours = $39.60 per machine-hour

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

243) At a sales volume of 40,000 units, Lonnie Company's total fixed costs are $40,000 and total variable costs are $60,000. The relevant range is 30,000 to 50,000 units.

If Lonnie were to sell 42,000 units, the total expected cost would be:

A) $105,000

B) $100,000

C) $103,000

D) $102,000

Answer: C

Explanation:

Variable cost per unit = Total variable cost ÷ Units = $60,000 ÷ 40,000 = $1.50 per unit

Total cost = Fixed cost + (Variable cost per unit × Units) = $40,000 + ($1.50 per unit × 42,000 units) = $103,000

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

244) At a sales volume of 40,000 units, Lonnie Company's total fixed costs are $40,000 and total variable costs are $60,000. The relevant range is 30,000 to 50,000 units.

If Lonnie were to sell 50,000 units, the total expected cost per unit would be: **(Round intermediate calculations to 2 decimal places.)**

A) $2.20

B) $2.30

C) $2.50

D) $2.00

Answer: B

Explanation:

Variable cost per unit = Total variable cost ÷ Units = $60,000 ÷ 40,000 = $1.50 per unit

Total cost = Fixed cost + (Variable cost per unit × Units) = $40,000 + ($1.50 per unit × 50,000 units) = $115,000

Cost per unit = $115,000 ÷ 50,000 units = $2.30 per unit

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

245) Erkkila Inc. reports that at an activity level of 2,100 machine-hours in a month, its total variable inspection cost is $69,846 and its total fixed inspection cost is $9,072.

What would be the average fixed inspection cost per unit at an activity level of 2,400 machine-hours in a month? Assume that this level of activity is within the relevant range.

A) $37.58

B) $4.32

C) $15.23

D) $3.78

Answer: D

Explanation: Average fixed inspection cost = Total fixed inspection cost ÷ Total activity

= $9,072 ÷ 2,400 machine-hours

= $3.78 per machine-hour

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

246) Erkkila Inc. reports that at an activity level of 2,100 machine-hours in a month, its total variable inspection cost is $69,846 and its total fixed inspection cost is $9,072.

What would be the total variable inspection cost at an activity level of 2,400 machine-hours in a month? Assume that this level of activity is within the relevant range. **(Round intermediate calculations to 2 decimal places.)**

A) $78,918

B) $69,846

C) $79,824

D) $10,368

Answer: C

Explanation: Variable inspection cost per unit = Total variable inspection cost ÷ Total activity

= $69,846 ÷ 2,100 machine-hours

= $33.26 per machine-hour

Total variable inspection cost = Variable inspection cost per unit × Total activity

= $33.26 per machine-hour × 2,400 machine-hours

= $79,824

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

247) Kogler Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average  Cost per Unit | |
| Direct materials | $ | 4.85 | |
| Direct labor | $ | 4.20 | |
| Variable manufacturing overhead | $ | 1.55 | |
| Fixed manufacturing overhead | $ | 9.00 | |
| Fixed selling expense | $ | 3.15 | |
| Fixed administrative expense | $ | 1.80 | |
| Sales commissions | $ | 0.50 | |
| Variable administrative expense | $ | 0.45 | |

If the selling price is $25.00 per unit, the contribution margin per unit sold is closest to:

A) $13.45

B) ($0.50)

C) $5.40

D) $15.95

Answer: A

Explanation:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | |  | | |
| Selling price per unit |  |  | |  | | $ | 25.00 | |
| Direct materials | $ | 4.85 | |  | |  |  | |
| Direct labor |  | 4.20 | |  | |  |  | |
| Variable manufacturing overhead |  | 1.55 | |  | |  |  | |
| Sales commissions |  | 0.50 | |  | |  |  | |
| Variable administrative expense |  | 0.45 | |  | |  |  | |
| Variable cost per unit sold |  |  | |  | |  | 11.55 | |
| Contribution margin per unit |  |  | |  | | $ | 13.45 | |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

248) Kogler Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  | Average  Cost per Unit | |
| Direct materials | $ | 4.85 | |
| Direct labor | $ | 4.20 | |
| Variable manufacturing overhead | $ | 1.55 | |
| Fixed manufacturing overhead | $ | 9.00 | |
| Fixed selling expense | $ | 3.15 | |
| Fixed administrative expense | $ | 1.80 | |
| Sales commissions | $ | 0.50 | |
| Variable administrative expense | $ | 0.45 | |

The incremental manufacturing cost that the company will incur if it increases production from 9,000 to 9,001 units is closest to:

A) $10.60

B) $22.75

C) $19.60

D) $25.50

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct materials | $ | 4.85 |
| Direct labor |  | 4.20 |
| Variable manufacturing overhead |  | 1.55 |
| Incremental manufacturing cost | $ | 10.60 |

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

249) The University Store, Inc. is the major bookseller for four nearby colleges. An income statement for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| University Store, Inc. | | | | |
| Income Statement | | | | |
| For the Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 800,000 | |
| Cost of goods sold |  |  |  | 560,000 | |
| Gross margin |  |  |  | 240,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administrative |  | 110,000 |  | 210,000 | |
| Net operating income |  |  | $ | 30,000 | |

On average, a book sells for $40.00. Variable selling expenses are $3.00 per book; the remaining selling expenses are fixed. The variable administrative expenses are 5% of sales; the remainder of the administrative expenses are fixed.

The contribution margin for the University Store for the first quarter is:

A) $660,000.

B) $700,000.

C) $180,000.

D) $140,000.

Answer: D

Explanation: Unit sales = $800,000 ÷ $40 per book = 20,000 books

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  |  | $ | 800,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 560,000 |  |  |
| Variable selling ($3 per book × 20,000 books) |  | 60,000 |  |  |
| Variable administrative (5% of $800,000) |  | 40,000 |  | 660,000 |
| Contribution margin |  |  | $ | 140,000 |

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

250) The University Store, Inc. is the major bookseller for four nearby colleges. An income statement for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| University Store, Inc. | | | | |
| Income Statement | | | | |
| For the Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 800,000 | |
| Cost of goods sold |  |  |  | 560,000 | |
| Gross margin |  |  |  | 240,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administrative |  | 110,000 |  | 210,000 | |
| Net operating income |  |  | $ | 30,000 | |

On average, a book sells for $40.00. Variable selling expenses are $3.00 per book; the remaining selling expenses are fixed. The variable administrative expenses are 5% of sales; the remainder of the administrative expenses are fixed.

The net operating income computed using the contribution approach for the first quarter is:

A) $30,000.

B) $180,000.

C) $140,000.

D) $0.

Answer: A

Explanation: Unit sales = $800,000 ÷ $40 per book = 20,000 books

Fixed selling expense = $100,000 − $3 per book × 20,000 books = $40,000

Fixed administrative expense = $110,000 – 0.05 × $800,000 = $70,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  |  | $ | 800,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 560,000 |  |  |
| Variable selling ($3 per book × 20,000 books) |  | 60,000 |  |  |
| Variable administrative (5% of $800,000) |  | 40,000 |  | 660,000 |
| Contribution margin |  |  |  | 140,000 |
| Fixed expenses: |  |  |  |  |
| Fixed selling |  | 40,000 |  |  |
| Fixed administrative |  | 70,000 |  | 110,000 |
| Net operating income |  |  | $ | 30,000 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

251) The University Store, Inc. is the major bookseller for four nearby colleges. An income statement for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| University Store, Inc. | | | | |
| Income Statement | | | | |
| For the Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 800,000 | |
| Cost of goods sold |  |  |  | 560,000 | |
| Gross margin |  |  |  | 240,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administrative |  | 110,000 |  | 210,000 | |
| Net operating income |  |  | $ | 30,000 | |

On average, a book sells for $40.00. Variable selling expenses are $3.00 per book; the remaining selling expenses are fixed. The variable administrative expenses are 5% of sales; the remainder of the administrative expenses are fixed.

The cost formula for selling and administrative expenses with "X" equal to the number of books sold is:

A) Y = $105,000 + $3X

B) Y = $105,000 + $5X

C) Y = $110,000 + $5X

D) Y = $110,000 + $33X

Answer: C

Explanation: Unit sales = $800,000 ÷ $40 per book = 20,000 books

Fixed selling expense = $100,000 − $3 per book × 20,000 books = $40,000

Fixed administrative expense = $110,000 – 0.05 × $800,000 = $70,000

Y = ($40,000 + $70,000) + ($3 per book + 0.05 × $40 per book) X

Y = $110,000 + $5X

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

252) The University Store, Inc. is the major bookseller for four nearby colleges. An income statement for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| University Store, Inc. | | | | |
| Income Statement | | | | |
| For the Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 800,000 | |
| Cost of goods sold |  |  |  | 560,000 | |
| Gross margin |  |  |  | 240,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administrative |  | 110,000 |  | 210,000 | |
| Net operating income |  |  | $ | 30,000 | |

On average, a book sells for $40.00. Variable selling expenses are $3.00 per book; the remaining selling expenses are fixed. The variable administrative expenses are 5% of sales; the remainder of the administrative expenses are fixed.

If 25,000 books are sold during the second quarter and this activity is within the relevant range, the company's expected contribution margin would be:

A) $875,000.

B) $300,000.

C) $175,000.

D) $65,000.

Answer: C

Explanation: Unit sales = $800,000 ÷ $40 per book = 20,000 books

Cost per book = $560,000 ÷ 20,000 books = $28 per book

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales ($40 per book × 25,000 books) |  |  | $ | 1,000,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold ($28 per book × 25,000 books) | $ | 700,000 |  |  |
| Variable selling ($3 per book × 25,000 books) |  | 75,000 |  |  |
| Variable administrative (5% of $1,000,000) |  | 50,000 |  | 825,000 |
| Contribution margin |  |  | $ | 175,000 |

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

253) An income statement for Sam's Bookstore for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sam's Bookstore | | | | |
| Income Statement | | | | |
| For Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 900,000 | |
| Cost of goods sold |  |  |  | 630,000 | |
| Gross margin |  |  |  | 270,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administration |  | 104,000 |  | 204,000 | |
| Net operating income |  |  | $ | 66,000 | |

On average, a book sells for $50. Variable selling expenses are $5 per book with the remaining selling expenses being fixed. The variable administrative expenses are 4% of sales with the remainder being fixed.

The contribution margin for Sam's Bookstore for the first quarter is:

A) $180,000

B) $774,000

C) $144,000

D) $756,000

Answer: C

Explanation: Unit sales = $900,000 ÷ $50 per book = 18,000 books

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  |  | $ | 900,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 630,000 |  |  |
| Variable selling ($5 per book × 18,000 books) |  | 90,000 |  |  |
| Variable administrative (4% of $900,000) |  | 36,000 |  | 756,000 |
| Contribution margin |  |  | $ | 144,000 |

Difficulty: 2 Medium

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

254) An income statement for Sam's Bookstore for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sam's Bookstore | | | | |
| Income Statement | | | | |
| For Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 900,000 | |
| Cost of goods sold |  |  |  | 630,000 | |
| Gross margin |  |  |  | 270,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administration |  | 104,000 |  | 204,000 | |
| Net operating income |  |  | $ | 66,000 | |

On average, a book sells for $50. Variable selling expenses are $5 per book with the remaining selling expenses being fixed. The variable administrative expenses are 4% of sales with the remainder being fixed.

The net operating income using the contribution approach for the first quarter is:

A) $270,000

B) $180,000

C) $144,000

D) $66,000

Answer: D

Explanation: Unit sales = $900,000 ÷ $50 per book = 18,000 books

Selling expenses = Fixed selling expenses + ($5 per book × 18,000 books)

$100,000 = Fixed selling expenses + $90,000

Fixed selling expenses = $100,000 − $90,000 = $10,000

Administrative expenses = Fixed administrative expenses + (4% of $900,000)

$104,000 = Fixed administrative expenses + $36,000

Fixed administrative expenses = $104,000 − $36,000 = $68,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales |  |  | $ | 900,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 630,000 |  |  |
| Variable selling ($5 per book × 18,000 books) |  | 90,000 |  |  |
| Variable administrative (4% of $900,000) |  | 36,000 |  | 756,000 |
| Contribution margin |  |  |  | 144,000 |
| Fixed expenses: |  |  |  |  |
| Fixed selling |  | 10,000 |  |  |
| Fixed administrative |  | 68,000 |  | 78,000 |
| Net operating income |  |  | $ | 66,000 |

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

255) An income statement for Sam's Bookstore for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sam's Bookstore | | | | |
| Income Statement | | | | |
| For Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 900,000 | |
| Cost of goods sold |  |  |  | 630,000 | |
| Gross margin |  |  |  | 270,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administration |  | 104,000 |  | 204,000 | |
| Net operating income |  |  | $ | 66,000 | |

On average, a book sells for $50. Variable selling expenses are $5 per book with the remaining selling expenses being fixed. The variable administrative expenses are 4% of sales with the remainder being fixed.

The cost formula for selling and administrative expenses with "X" equal to the number of books sold is:

A) Y = $102,000 + $5X

B) Y = $102,000 + $7X

C) Y = $78,000 + $7X

D) Y = $78,000 + $9X

Answer: C

Explanation: Unit sales = $900,000 ÷ $50 per book = 18,000 books

Selling expenses = Fixed selling expenses + ($5 per book × 18,000 books)

$100,000 = Fixed selling expenses + $90,000

Fixed selling expenses = $100,000 − $90,000 = $10,000

Administrative expenses = Fixed administrative expenses + (0.04 × $900,000)

$104,000 = Fixed administrative expenses + $36,000

Fixed administrative expenses = $104,000 − $36,000 = $68,000

Variable administrative expense per unit = 0.04 × $50 per book = $2 per book

Y = ($10,000 + $68,000) + ($5 + $2) X

Y = $78,000 + $7X

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

256) An income statement for Sam's Bookstore for the first quarter of the year is presented below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sam's Bookstore | | | | |
| Income Statement | | | | |
| For Quarter Ended March 31 | | | | |
| Sales |  |  | $ | 900,000 | |
| Cost of goods sold |  |  |  | 630,000 | |
| Gross margin |  |  |  | 270,000 | |
| Selling and administrative expenses |  |  |  |  | |
| Selling | $ | 100,000 |  |  | |
| Administration |  | 104,000 |  | 204,000 | |
| Net operating income |  |  | $ | 66,000 | |

On average, a book sells for $50. Variable selling expenses are $5 per book with the remaining selling expenses being fixed. The variable administrative expenses are 4% of sales with the remainder being fixed.

If 20,000 books are sold during the second quarter and this activity is within the relevant range, the company's expected contribution margin would be:

A) $300,000

B) $160,000

C) $860,000

D) $58,000

Answer: B

Explanation: Unit sales = $900,000 ÷ $50 per book = 18,000 books

Unit cost of goods sold = $630,000 ÷ 18,000 books = $35 per book

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sales ($50 per book × 20,000 books) |  |  | $ | 1,000,000 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold ($35 per book × 20,000 books) | $ | 700,000 |  |  |
| Variable selling ($5 per book × 20,000 books) |  | 100,000 |  |  |
| Variable administrative (4% of $1,000,000) |  | 40,000 |  | 840,000 |
| Contribution margin |  |  | $ | 160,000 |

Difficulty: 3 Hard

Topic: Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

257) Dominik Corporation purchased a machine 5 years ago for $527,000 when it launched product M08Y. Unfortunately, this machine has broken down and cannot be repaired. The machine could be replaced by a new model 310 machine costing $545,000 or by a new model 240 machine costing $450,000. Management has decided to buy the model 240 machine. It has less capacity than the model 310 machine, but its capacity is sufficient to continue making product M08Y. Management also considered, but rejected, the alternative of dropping product M08Y and not replacing the old machine. If that were done, the $450,000 invested in the new machine could instead have been invested in a project that would have returned a total of $532,000.

In making the decision to buy the model 240 machine rather than the model 310 machine, the differential cost was:

A) $95,000

B) $5,000

C) $77,000

D) $18,000

Answer: A

Explanation: Differential cost = $545,000 − $450,000 = $95,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

258) Dominik Corporation purchased a machine 5 years ago for $527,000 when it launched product M08Y. Unfortunately, this machine has broken down and cannot be repaired. The machine could be replaced by a new model 310 machine costing $545,000 or by a new model 240 machine costing $450,000. Management has decided to buy the model 240 machine. It has less capacity than the model 310 machine, but its capacity is sufficient to continue making product M08Y. Management also considered, but rejected, the alternative of dropping product M08Y and not replacing the old machine. If that were done, the $450,000 invested in the new machine could instead have been invested in a project that would have returned a total of $532,000.

In making the decision to buy the model 240 machine rather than the model 310 machine, the sunk cost was:

A) $545,000

B) $450,000

C) $527,000

D) $532,000

Answer: C

Explanation: Sunk cost = Cost of old machine = $527,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

259) Dominik Corporation purchased a machine 5 years ago for $527,000 when it launched product M08Y. Unfortunately, this machine has broken down and cannot be repaired. The machine could be replaced by a new model 310 machine costing $545,000 or by a new model 240 machine costing $450,000. Management has decided to buy the model 240 machine. It has less capacity than the model 310 machine, but its capacity is sufficient to continue making product M08Y. Management also considered, but rejected, the alternative of dropping product M08Y and not replacing the old machine. If that were done, the $450,000 invested in the new machine could instead have been invested in a project that would have returned a total of $532,000.

In making the decision to invest in the model 240 machine, the opportunity cost was:

A) $545,000

B) $450,000

C) $532,000

D) $527,000

Answer: C

Explanation: Opportunity cost = Return from alternative investment = $532,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

260) Management of Plascencia Corporation is considering whether to purchase a new model 370 machine costing $360,000 or a new model 220 machine costing $340,000 to replace a machine that was purchased 7 years ago for $348,000. The old machine was used to make product I43L until it broke down last week. Unfortunately, the old machine cannot be repaired.

Management has decided to buy the new model 220 machine. It has less capacity than the new model 370 machine, but its capacity is sufficient to continue making product I43L.

Management also considered, but rejected, the alternative of simply dropping product I43L. If that were done, instead of investing $340,000 in the new machine, the money could be invested in a project that would return a total of $411,000.

In making the decision to buy the model 220 machine rather than the model 370 machine, the sunk cost was:

A) $348,000

B) $340,000

C) $360,000

D) $411,000

Answer: A

Explanation: Sunk cost = Cost of old machine = $348,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

261) Management of Plascencia Corporation is considering whether to purchase a new model 370 machine costing $360,000 or a new model 220 machine costing $340,000 to replace a machine that was purchased 7 years ago for $348,000. The old machine was used to make product I43L until it broke down last week. Unfortunately, the old machine cannot be repaired.

Management has decided to buy the new model 220 machine. It has less capacity than the new model 370 machine, but its capacity is sufficient to continue making product I43L.

Management also considered, but rejected, the alternative of simply dropping product I43L. If that were done, instead of investing $340,000 in the new machine, the money could be invested in a project that would return a total of $411,000.

In making the decision to buy the model 220 machine rather than the model 370 machine, the differential cost was:

A) $20,000

B) $8,000

C) $12,000

D) $63,000

Answer: A

Explanation: Differential cost = $360,000 − $340,000 = $20,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

262) Management of Plascencia Corporation is considering whether to purchase a new model 370 machine costing $360,000 or a new model 220 machine costing $340,000 to replace a machine that was purchased 7 years ago for $348,000. The old machine was used to make product I43L until it broke down last week. Unfortunately, the old machine cannot be repaired.

Management has decided to buy the new model 220 machine. It has less capacity than the new model 370 machine, but its capacity is sufficient to continue making product I43L.

Management also considered, but rejected, the alternative of simply dropping product I43L. If that were done, instead of investing $340,000 in the new machine, the money could be invested in a project that would return a total of $411,000.

In making the decision to invest in the model 220 machine, the opportunity cost was:

A) $348,000

B) $340,000

C) $360,000

D) $411,000

Answer: D

Explanation: Opportunity cost = Return from alternative investment = $411,000

Difficulty: 1 Easy

Topic: Cost Classifications for Decision Making

Learning Objective: 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Decision Making

263) Bolka Corporation, a merchandising company, reported the following results for October:

|  |  |  |
| --- | --- | --- |
| Sales | $ | 4,096,400 |
| Cost of goods sold (all variable) | $ | 2,194,500 |
| Total variable selling expense | $ | 238,700 |
| Total fixed selling expense | $ | 144,700 |
| Total variable administrative expense | $ | 238,700 |
| Total fixed administrative expense | $ | 282,900 |

The gross margin for October is:

A) $1,424,500

B) $1,901,900

C) $996,900

D) $3,668,800

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales | $ | 4,096,400 |
| Cost of goods sold |  | 2,194,500 |
| Gross margin | $ | 1,901,900 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

264) Bolka Corporation, a merchandising company, reported the following results for October:

|  |  |  |
| --- | --- | --- |
| Sales | $ | 4,096,400 |
| Cost of goods sold (all variable) | $ | 2,194,500 |
| Total variable selling expense | $ | 238,700 |
| Total fixed selling expense | $ | 144,700 |
| Total variable administrative expense | $ | 238,700 |
| Total fixed administrative expense | $ | 282,900 |

The contribution margin for October is:

A) $1,424,500

B) $3,191,400

C) $1,901,900

D) $996,900

Answer: A

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Sales |  |  | $ | 4,096,400 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 2,194,500 |  |  |
| Variable selling expense |  | 238,700 |  |  |
| Variable administrative expense |  | 238,700 |  | 2,671,900 |
| Contribution margin |  |  | $ | 1,424,500 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

265) Streif Inc., a local retailer, has provided the following data for the month of June:

|  |  |  |
| --- | --- | --- |
| Merchandise inventory, beginning balance | $ | 46,000 |
| Merchandise inventory, ending balance | $ | 52,000 |
| Sales | $ | 260,000 |
| Purchases of merchandise inventory | $ | 128,000 |
| Selling expense | $ | 13,000 |
| Administrative expense | $ | 40,000 |

The cost of goods sold for June was:

A) $128,000

B) $181,000

C) $122,000

D) $134,000

Answer: C

Explanation: Cost of goods sold = Beginning merchandise inventory + Purchases of merchandise inventory − Ending merchandise inventory

= $46,000 + $128,000 − $52,000

= $122,000

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

266) Streif Inc., a local retailer, has provided the following data for the month of June:

|  |  |  |
| --- | --- | --- |
| Merchandise inventory, beginning balance | $ | 46,000 |
| Merchandise inventory, ending balance | $ | 52,000 |
| Sales | $ | 260,000 |
| Purchases of merchandise inventory | $ | 128,000 |
| Selling expense | $ | 13,000 |
| Administrative expense | $ | 40,000 |

The net operating income for June was:

A) $132,000

B) $126,000

C) $85,000

D) $79,000

Answer: C

Explanation: Net operating income = Sales − Cost of goods sold − Selling and administrative expenses

= $260,000 − $122,000 − ($13,000 + $40,000)

= $85,000

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

267) Boersma Sales, Inc., a merchandising company, reported sales of 7,100 units in September at a selling price of $682 per unit. Cost of goods sold, which is a variable cost, was $317 per unit. Variable selling expenses were $44 per unit and variable administrative expenses were $22 per unit. The total fixed selling expenses were $157,200 and the total administrative expenses were $338,000.

The contribution margin for September was:

A) $3,878,400

B) $2,122,900

C) $2,591,500

D) $1,627,700

Answer: B

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Sales (7,100 units × $682 per unit) |  |  | $ | 4,842,200 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold (7,100 units × $317 per unit) | $ | 2,250,700 |  |  |
| Variable selling expense (7,100 units × $44 per unit) |  | 312,400 |  |  |
| Variable administrative expense (7,100 units × $22 per unit) |  | 156,200 |  | 2,719,300 |
| Contribution margin |  |  | $ | 2,122,900 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

268) Boersma Sales, Inc., a merchandising company, reported sales of 7,100 units in September at a selling price of $682 per unit. Cost of goods sold, which is a variable cost, was $317 per unit. Variable selling expenses were $44 per unit and variable administrative expenses were $22 per unit. The total fixed selling expenses were $157,200 and the total administrative expenses were $338,000.

The gross margin for September was:

A) $2,122,900

B) $2,591,500

C) $1,627,700

D) $4,347,000

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales (7,100 units × $682 per unit) | $ | 4,842,200 |
| Cost of goods sold (7,100 units × $317 per unit) |  | 2,250,700 |
| Gross margin | $ | 2,591,500 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

269) Delongis Corporation, a merchandising company, reported the following results for June:

|  |  |  |  |
| --- | --- | --- | --- |
| Number of units sold |  | 1,200 | units |
| Selling price per unit | $ | 221 | per unit |
| Unit cost of goods sold | $ | 97 | per unit |
| Variable selling expense per unit | $ | 12 | per unit |
| Total fixed selling expense | $ | 7,300 |  |
| Variable administrative expense per unit | $ | 8 | per unit |
| Total fixed administrative expense | $ | 15,300 |  |

Cost of goods sold is a variable cost in this company.

The gross margin for June is:

A) $242,600

B) $148,800

C) $124,800

D) $102,200

Answer: B

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales (1,200 units × $221 per unit) | $ | 265,200 |
| Cost of goods sold (1,200 units × $97 per unit) |  | 116,400 |
| Gross margin | $ | 148,800 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

270) Delongis Corporation, a merchandising company, reported the following results for June:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Number of units sold |  | 1,200 | units |
| Selling price per unit | $ | 221 | per unit |
| Unit cost of goods sold | $ | 97 | per unit |
| Variable selling expense per unit | $ | 12 | per unit |
| Total fixed selling expense | $ | 7,300 |  |
| Variable administrative expense per unit | $ | 8 | per unit |
| Total fixed administrative expense | $ | 15,300 |  |

Cost of goods sold is a variable cost in this company.

The contribution margin for June is:

A) $148,800

B) $102,200

C) $218,600

D) $124,800

Answer: D

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Sales (1,200 units × $221 per unit) |  |  | $ | 265,200 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold (1,200 units × $97 per unit) | $ | 116,400 |  |  |
| Variable selling expense (1,200 units × $12 per unit) |  | 14,400 |  |  |
| Variable administrative expense (1,200 units × $8 per unit) |  | 9,600 |  | 140,400 |
| Contribution margin |  |  | $ | 124,800 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

271) Salomon Marketing, Inc., a merchandising company, reported sales of $1,555,500 and cost of goods sold of $1,025,100 for December. The company's total variable selling expense was $96,900; its total fixed selling expense was $34,300; its total variable administrative expense was $71,400; and its total fixed administrative expense was $100,100. The cost of goods sold in this company is a variable cost.

The contribution margin for December is:

A) $530,400

B) $227,700

C) $1,252,800

D) $362,100

Answer: D

Explanation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Sales |  |  | $ | 1,555,500 |
| Variable expenses: |  |  |  |  |
| Cost of goods sold | $ | 1,025,100 |  |  |
| Variable selling expense |  | 96,900 |  |  |
| Variable administrative expense |  | 71,400 |  | 1,193,400 |
| Contribution margin |  |  | $ | 362,100 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

272) Salomon Marketing, Inc., a merchandising company, reported sales of $1,555,500 and cost of goods sold of $1,025,100 for December. The company's total variable selling expense was $96,900; its total fixed selling expense was $34,300; its total variable administrative expense was $71,400; and its total fixed administrative expense was $100,100. The cost of goods sold in this company is a variable cost.

The gross margin for December is:

A) $530,400

B) $227,700

C) $362,100

D) $1,421,100

Answer: A

Explanation:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales | $ | 1,555,500 |
| Cost of goods sold |  | 1,025,100 |
| Gross margin | $ | 530,400 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

273) A number of costs are listed below.

|  |  |  |
| --- | --- | --- |
|  | Cost Description | Cost Object |
| 1. | Wages of carpenters on a home building site | A particular home |
| 2. | Cost of wiring used in making a personal computer | A particular personal computer |
| 3. | Manager's salary at a hotel run by a chain of hotels | A particular hotel guest |
| 4. | Manager's salary at a hotel run by a chain of hotels | The particular hotel |
| 5. | Cost of aluminum mast installed in a yacht at a yacht manufacturer | A particular yacht |
| 6. | Monthly lease cost of X-ray equipment at a hospital | The Radiology (X-Ray) Department |
| 7. | Cost of screws used to secure wood trim in a yacht at a yacht manufacturer | A particular yacht |
| 8. | Cost of electronic navigation system installed in a yacht  at a yacht manufacturer | A particular yacht |
| 9. | Cost of a replacement battery installed in a car at the auto repair shop of an automobile dealer | The auto repair shop |
| 10. | Cost of a measles vaccine administered at an outpatient clinic at a hospital | A particular patient |

**Required:**

For each item above, indicate whether the cost is direct or indirect with respect to the cost object listed next to it.

Answer:

1. Wages of carpenters on a home building site; A particular home; Direct

2. Cost of wiring used in making a personal computer; A particular personal computer; Indirect

3. Manager's salary at a hotel run by a chain of hotels; A particular hotel guest; Indirect

4. Manager's salary at a hotel run by a chain of hotels; The particular hotel; Direct

5. Cost of aluminum mast installed in a yacht at a yacht manufacturer; A particular yacht; Direct

6. Monthly lease cost of X-ray equipment at a hospital; The Radiology (X-Ray) Department; Direct

7. Cost of screws used to secure wood trim in a yacht at a yacht manufacturer; A particular yacht; Indirect

8. Cost of electronic navigation system installed in a yacht at a yacht manufacturer; A particular yacht; Direct

9. Cost of a replacement battery installed in a car at the auto repair shop of an automobile dealer; The auto repair shop; Direct

10. Cost of a measles vaccine administered at an outpatient clinic at a hospital; A particular patient; Direct

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

274) Dobosh Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $7.05 |  |
|  | Direct labor | $3.65 |  |
|  | Variable manufacturing overhead | $1.60 |  |
|  | Fixed manufacturing overhead |  | $113,400 |
|  | Sales commissions | $1.50 |  |
|  | Variable administrative expense | $0.55 |  |
|  | Fixed selling and administrative expense |  | $36,450 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 9,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 9,000 units?

c. If 10,000 units are sold, what is the variable cost per unit sold?

d. If 10,000 units are sold, what is the total amount of variable costs related to the units sold?

e. If 10,000 units are produced, what is the total amount of manufacturing overhead cost incurred?

f. If the selling price is $21.60 per unit, what is the contribution margin per unit sold?

g. If 8,000 units are produced, what is the total amount of direct manufacturing cost incurred?

h. If 8,000 units are produced, what is the total amount of indirect manufacturing costs incurred?

i. What incremental manufacturing cost will the company incur if it increases production from 9,000 to 9,001 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $7.05 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.60 |
|  | Variable manufacturing cost per unit | $12.30 |
|  |  |  |
|  | Total variable manufacturing cost  ($12.30 per unit × 9,000 units produced) | $110,700 |
|  | Total fixed manufacturing overhead cost | 113,400 |
|  | Total product (manufacturing) cost | $224,100 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | 0.55 |
|  | Variable selling and administrative expense per unit | $2.05 |
|  |  |  |
|  | Total variable selling and administrative expense  ($2.05 per unit × 9,000 units sold) | $18,450 |
|  | Total fixed selling and administrative expense | 36,450 |
|  | Total period (nonmanufacturing) cost | $54,900 |

c.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $7.05 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.60 |
|  | Sales commissions | 1.50 |
|  | Variable administrative expense | 0.55 |
|  | Variable cost per unit sold | $14.35 |

d.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $14.35 |
|  | Number of units sold (b) | 10,000 |
|  | Total variable costs (a) × (b) | $143,500 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit × 10,000 units) | $16,000 |
|  | Total fixed manufacturing overhead cost | 113,400 |
|  | Total manufacturing overhead cost (a) | $129,400 |

f.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $21.60 |
|  | Direct materials | $7.05 |  |
|  | Direct labor | 3.65 |  |
|  | Variable manufacturing overhead | 1.60 |  |
|  | Sales commissions | 1.50 |  |
|  | Variable administrative expense | 0.55 |  |
|  | Variable cost per unit sold |  | 14.35 |
|  | Contribution margin per unit |  | $7.25 |

g.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $7.05 |
|  | Direct labor | 3.65 |
|  | Direct manufacturing cost per unit (a) | $10.70 |
|  | Number of units produced (b) | 8,000 |
|  | Total direct manufacturing cost (a) × (b) | $85,600 |

h.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit × 8,000 units) | $12,800 |
|  | Total fixed manufacturing overhead cost | 113,400 |
|  | Total indirect manufacturing cost | $126,200 |

i.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $7.05 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.60 |
|  | Incremental manufacturing cost | $12.30 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

275) Saxbury Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $5.30 |
|  | Direct labor | $3.65 |
|  | Variable manufacturing overhead | $1.50 |
|  | Fixed manufacturing overhead | $3.90 |
|  | Fixed selling expense | $0.75 |
|  | Fixed administrative expense | $0.60 |
|  | Sales commissions | $0.50 |
|  | Variable administrative expense | $0.50 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 5,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 5,000 units?

c. If 6,000 units are sold, what is the variable cost per unit sold?

d. If 6,000 units are sold, what is the total amount of variable costs related to the units sold?

e. If 6,000 units are produced, what is the average fixed manufacturing cost per unit produced?

f. If 6,000 units are produced, what is the total amount of fixed manufacturing cost incurred?

g. If 6,000 units are produced, what is the total amount of manufacturing overhead cost incurred? What is this total amount expressed on a per unit basis?

h. If the selling price is $22.90 per unit, what is the contribution margin per unit sold?

i. If 4,000 units are produced, what is the total amount of direct manufacturing cost incurred?

j. If 4,000 units are produced, what is the total amount of indirect manufacturing cost incurred?

k. What incremental manufacturing cost will the company incur if it increases production from 5,000 to 5,001 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.30 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.50 |
|  | Variable manufacturing cost per unit | $10.45 |
|  |  |  |
|  | Total variable manufacturing cost  ($10.45 per unit × 5,000 units produced) | $52,250 |
|  | Total fixed manufacturing overhead cost  ($3.90 per unit × 5,000 units produced) | 19,500 |
|  | Total product (manufacturing) cost | $71,750 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $0.50 |
|  | Variable administrative expense | 0.50 |
|  | Variable selling and administrative expense per unit | $1.00 |
|  |  |  |
|  | Total variable selling and administrative expense  ($1.00 per unit × 5,000 units sold) | $5,000 |
|  | Total fixed selling and administrative expense  ($0.75 per unit × 5,000 units + $0.60 per unit × 5,000 units) | 6,750 |
|  | Total period (nonmanufacturing) cost | $11,750 |

c.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.30 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.50 |
|  | Sales commissions | 0.50 |
|  | Variable administrative expense | 0.50 |
|  | Variable cost per unit sold | $11.45 |

d.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $11.45 |
|  | Number of units sold (b) | 6,000 |
|  | Total variable costs (a) × (b) | $68,700 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost  ($3.90 per unit × 5,000 units\*) (a) | $19,500 |
|  | Number of units produced (b) | 6,000 |
|  | Average fixed manufacturing cost per unit produced  (a) ÷ (b) | $3.25 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

f.

|  |  |  |
| --- | --- | --- |
|  | Fixed manufacturing overhead per unit | $3.90 |
|  | Number of units produced | 5,000 |
|  | Total fixed manufacturing overhead cost | $19,500 |

g.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.50 per unit × 6,000 units) | $9,000 |
|  | Total fixed manufacturing overhead cost  ($3.90 per unit × 5,000 units\*) | 19,500 |
|  | Total manufacturing overhead cost (a) | $28,500 |
|  | Number of units produced (b) | 6,000 |
|  | Manufacturing overhead per unit (a) ÷ (b) | $4.75 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

h.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $22.90 |
|  | Direct materials | $5.30 |  |
|  | Direct labor | 3.65 |  |
|  | Variable manufacturing overhead | 1.50 |  |
|  | Sales commissions | 0.50 |  |
|  | Variable administrative expense | 0.50 |  |
|  | Variable cost per unit sold |  | 11.45 |
|  | Contribution margin per unit |  | $11.45 |

i.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.30 |
|  | Direct labor | 3.65 |
|  | Direct manufacturing cost per unit (a) | $8.95 |
|  | Number of units produced (b) | 4,000 |
|  | Total direct manufacturing cost (a) × (b) | $35,800 |

j

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.50 per unit × 4,000 units) | $6,000 |
|  | Total fixed manufacturing overhead cost  ($3.90 per unit × 5,000 units\*) | 19,500 |
|  | Total indirect manufacturing cost | $25,500 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

k.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.30 |
|  | Direct labor | 3.65 |
|  | Variable manufacturing overhead | 1.50 |
|  | Incremental manufacturing cost | $10.45 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

276) Myklebust Corporation's relevant range of activity is 4,000 units to 8,000 units. When it produces and sells 6,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $6.40 |
|  | Direct labor | $3.80 |
|  | Variable manufacturing overhead | $1.60 |
|  | Fixed manufacturing overhead | $3.00 |
|  | Fixed selling expense | $0.75 |
|  | Fixed administrative expense | $0.60 |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | $0.45 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 6,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 6,000 units?

c. If the selling price is $20.20 per unit, what is the contribution margin per unit sold?

d. If 7,000 units are produced, what is the total amount of direct manufacturing cost incurred?

e. If 7,000 units are produced, what is the total amount of indirect manufacturing cost incurred?

f. What incremental manufacturing cost will the company incur if it increases production from 6,000 to 6,001 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.40 |
|  | Direct labor | 3.80 |
|  | Variable manufacturing overhead | 1.60 |
|  | Variable manufacturing cost per unit | $11.80 |
|  |  |  |
|  | Total variable manufacturing cost  ($11.80 per unit × 6,000 units produced) | $70,800 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 6,000 units produced) | 18,000 |
|  | Total product (manufacturing) cost | $88,800 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | 0.45 |
|  | Variable selling and administrative expense per unit | $1.95 |
|  |  |  |
|  | Total variable selling and administrative expense  ($1.95 per unit × 6,000 units sold) | $11,700 |
|  | Total fixed selling and administrative expense  ($0.75 per unit × 6,000 units + $0.60 per unit × 6,000 units) | 8,100 |
|  | Total period (nonmanufacturing) cost | $19,800 |

c.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $20.20 |
|  | Direct materials | $6.40 |  |
|  | Direct labor | 3.80 |  |
|  | Variable manufacturing overhead | 1.60 |  |
|  | Sales commissions | 1.50 |  |
|  | Variable administrative expense | 0.45 |  |
|  | Variable cost per unit sold |  | 13.75 |
|  | Contribution margin per unit |  | $6.45 |

d.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.40 |
|  | Direct labor | 3.80 |
|  | Direct manufacturing cost per unit (a) | $10.20 |
|  | Number of units produced (b) | 7,000 |
|  | Total direct manufacturing cost (a) × (b) | $71,400 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit × 7,000 units) | $11,200 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 6,000 units\*) | 18,000 |
|  | Total indirect manufacturing cost | $29,200 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 6,000 units.

f.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.40 |
|  | Direct labor | 3.80 |
|  | Variable manufacturing overhead | 1.60 |
|  | Incremental manufacturing cost | $11.80 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

277) Learned Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $5.20 |  |
|  | Direct labor | $3.85 |  |
|  | Variable manufacturing overhead | $1.35 |  |
|  | Fixed manufacturing overhead |  | $27,000 |
|  | Sales commissions | $0.50 |  |
|  | Variable administrative expense | $0.40 |  |
|  | Fixed selling and administrative expense |  | $9,000 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 6,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 6,000 units?

c. If the selling price is $22.40 per unit, what is the contribution margin per unit sold?

d. If 7,000 units are produced, what is the total amount of direct manufacturing cost incurred?

e. If 7,000 units are produced, what is the total amount of indirect manufacturing costs incurred?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.20 |
|  | Direct labor | 3.85 |
|  | Variable manufacturing overhead | 1.35 |
|  | Variable manufacturing cost per unit | $10.40 |
|  |  |  |
|  | Total variable manufacturing cost  ($10.40 per unit × 6,000 units produced) | $62,400 |
|  | Total fixed manufacturing overhead cost | 27,000 |
|  | Total product (manufacturing) cost | $89,400 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $0.50 |
|  | Variable administrative expense | 0.40 |
|  | Variable selling and administrative expense per unit | $0.90 |
|  |  |  |
|  | Total variable selling and administrative expense  ($0.90 per unit × 6,000 units sold) | $5,400 |
|  | Total fixed selling and administrative expense | 9,000 |
|  | Total period (nonmanufacturing) cost | $14,400 |

c.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $22.40 |
|  | Direct materials | $5.20 |  |
|  | Direct labor | 3.85 |  |
|  | Variable manufacturing overhead | 1.35 |  |
|  | Sales commissions | 0.50 |  |
|  | Variable administrative expense | 0.40 |  |
|  | Variable cost per unit sold |  | 11.30 |
|  | Contribution margin per unit |  | $11.10 |

d.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.20 |
|  | Direct labor | 3.85 |
|  | Direct manufacturing cost per unit (a) | $9.05 |
|  | Number of units produced (b) | 7,000 |
|  | Total direct manufacturing cost (a) × (b) | $63,350 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.35 per unit × 7,000 units) | $9,450 |
|  | Total fixed manufacturing overhead cost | 27,000 |
|  | Total indirect manufacturing cost | $36,450 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

278) Arman Corporation's relevant range of activity is 3,000 units to 7,000 units. When it produces and sells 5,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $6.10 |
|  | Direct labor | $2.90 |
|  | Variable manufacturing overhead | $1.25 |
|  | Fixed manufacturing overhead | $3.00 |
|  | Fixed selling expense | $1.05 |
|  | Fixed administrative expense | $0.60 |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | $0.55 |

**Required:**

a. If 6,000 units are produced, what is the total amount of fixed manufacturing cost incurred?

b. If 6,000 units are produced, what is the total amount of manufacturing overhead cost incurred? What is this total amount expressed on a per unit basis?

c. If 4,000 units are produced, what is the total amount of direct manufacturing cost incurred?

d. If 4,000 units are produced, what is the total amount of indirect manufacturing cost incurred?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Fixed manufacturing overhead per unit | $3.00 |
|  | Number of units produced | 5,000 |
|  | Total fixed manufacturing overhead cost | $15,000 |

b.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.25 per unit × 6,000 units) | $7,500 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 5,000 units\*) | 15,000 |
|  | Total manufacturing overhead cost (a) | $22,500 |
|  | Number of units produced (b) | 6,000 |
|  | Manufacturing overhead per unit (a) ÷ (b) | $3.75 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

c.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.10 |
|  | Direct labor | 2.90 |
|  | Direct manufacturing cost per unit (a) | $9.00 |
|  | Number of units produced (b) | 4,000 |
|  | Total direct manufacturing cost (a) × (b) | $36,000 |

d.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.25 per unit × 4,000 units) | $5,000 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 5,000 units\*) | 15,000 |
|  | Total indirect manufacturing cost | $20,000 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 5,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

279) Skolnick Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $5.70 |  |
|  | Direct labor | $3.60 |  |
|  | Variable manufacturing overhead | $1.50 |  |
|  | Fixed manufacturing overhead |  | $121,500 |
|  | Sales commissions | $1.00 |  |
|  | Variable administrative expense | $0.45 |  |
|  | Fixed selling and administrative expense |  | $36,450 |

**Required:**

a. If 8,000 units are produced, what is the total amount of direct manufacturing cost incurred?

b. If 8,000 units are produced, what is the total amount of indirect manufacturing costs incurred?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.70 |
|  | Direct labor | 3.60 |
|  | Direct manufacturing cost per unit (a) | $9.30 |
|  | Number of units produced (b) | 8,000 |
|  | Total direct manufacturing cost (a) × (b) | $74,400 |

b.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.50 per unit × 8,000 units) | $12,000 |
|  | Total fixed manufacturing overhead cost | 121,500 |
|  | Total indirect manufacturing cost | $133,500 |

Difficulty: 1 Easy

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

280) Karpowicz Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $6.25 |
|  | Direct labor | $4.15 |
|  | Variable manufacturing overhead | $1.60 |
|  | Fixed manufacturing overhead | $12.60 |
|  | Fixed selling expense | $3.15 |
|  | Fixed administrative expense | $1.80 |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | $0.45 |

**Required:**

a. If the selling price is $21.40 per unit, what is the contribution margin per unit sold?

b. If 8,000 units are produced, what is the total amount of direct manufacturing cost incurred?

c. If 8,000 units are produced, what is the total amount of indirect manufacturing cost incurred?

d. What incremental manufacturing cost will the company incur if it increases production from 9,000 to 9,001 units?

Answer:

a.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $21.40 |
|  | Direct materials | $6.25 |  |
|  | Direct labor | 4.15 |  |
|  | Variable manufacturing overhead | 1.60 |  |
|  | Sales commissions | 1.50 |  |
|  | Variable administrative expense | 0.45 |  |
|  | Variable cost per unit sold |  | 13.95 |
|  | Contribution margin per unit |  | $7.45 |

b.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.25 |
|  | Direct labor | 4.15 |
|  | Direct manufacturing cost per unit (a) | $10.40 |
|  | Number of units produced (b) | 8,000 |
|  | Total direct manufacturing cost (a) × (b) | $83,200 |

c.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit × 8,000 units) | $12,800 |
|  | Total fixed manufacturing overhead cost  ($12.60 per unit × 9,000 units\*) | 113,400 |
|  | Total indirect manufacturing cost | $126,200 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 9,000 units.

d.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.25 |
|  | Direct labor | 4.15 |
|  | Variable manufacturing overhead | 1.60 |
|  | Incremental manufacturing cost | $12.00 |

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

281) Parlavecchio Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $5.20 |
|  | Direct labor | $3.40 |
|  | Variable manufacturing overhead | $1.35 |
|  | Fixed manufacturing overhead | $3.00 |
|  | Fixed selling expense | $0.70 |
|  | Fixed administrative expense | $0.40 |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | $0.45 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 4,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 4,000 units?

c. If 5,000 units are sold, what is the variable cost per unit sold?

d. If 5,000 units are sold, what is the total amount of variable costs related to the units sold?

e. If 5,000 units are produced, what is the average fixed manufacturing cost per unit produced?

f. If 5,000 units are produced, what is the total amount of fixed manufacturing cost incurred?

g. If 5,000 units are produced, what is the total amount of manufacturing overhead cost incurred? What is this total amount expressed on a per unit basis?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.20 |
|  | Direct labor | 3.40 |
|  | Variable manufacturing overhead | 1.35 |
|  | Variable manufacturing cost per unit | $9.95 |
|  |  |  |
|  | Total variable manufacturing cost  ($9.95 per unit × 4,000 units produced) | $39,800 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 4,000 units produced) | 12,000 |
|  | Total product (manufacturing) cost | $51,800 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | 0.45 |
|  | Variable selling and administrative expense per unit | $1.95 |
|  |  |  |
|  | Total variable selling and administrative expense  ($1.95 per unit × 4,000 units sold) | $7,800 |
|  | Total fixed selling and administrative expense  ($0.70 per unit × 4,000 units + $0.40 per unit × 4,000 units) | 4,400 |
|  | Total period (nonmanufacturing) cost | $12,200 |

c.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.20 |
|  | Direct labor | 3.40 |
|  | Variable manufacturing overhead | 1.35 |
|  | Sales commissions | 1.50 |
|  | Variable administrative expense | 0.45 |
|  | Variable cost per unit sold | $11.90 |

d.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $11.90 |
|  | Number of units sold (b) | 5,000 |
|  | Total variable costs (a) × (b) | $59,500 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 4,000 units\*) (a) | $12,000 |
|  | Number of units produced (b) | 5,000 |
|  | Average fixed manufacturing cost per unit produced (a) ÷ (b) | $2.40 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

f.

|  |  |  |
| --- | --- | --- |
|  | Fixed manufacturing overhead per unit | $3.00 |
|  | Number of units produced | 4,000 |
|  | Total fixed manufacturing overhead cost | $12,000 |

g.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.35 per unit × 5,000 units) | $6,750 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit × 4,000 units\*) | 12,000 |
|  | Total manufacturing overhead cost (a) | $18,750 |
|  | Number of units produced (b) | 5,000 |
|  | Manufacturing overhead per unit (a) ÷ (b) | $3.75 |

\*The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.

Difficulty: 2 Medium

Topic: Cost Classifications for Assigning Costs to Cost Objects; Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.; 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

282) Menk Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $6.25 |  |
|  | Direct labor | $3.25 |  |
|  | Variable manufacturing overhead | $1.45 |  |
|  | Fixed manufacturing overhead |  | $18,000 |
|  | Sales commissions | $0.50 |  |
|  | Variable administrative expense | $0.40 |  |
|  | Fixed selling and administrative expense |  | $9,000 |

**Required:**

a. If 5,000 units are sold, what is the variable cost per unit sold?

b. If 5,000 units are sold, what is the total amount of variable costs related to the units sold?

c. If 5,000 units are produced, what is the total amount of manufacturing overhead cost incurred?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.25 |
|  | Direct labor | 3.25 |
|  | Variable manufacturing overhead | 1.45 |
|  | Sales commissions | 0.50 |
|  | Variable administrative expense | 0.40 |
|  | Variable cost per unit sold | $11.85 |

b.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $11.85 |
|  | Number of units sold (b) | 5,000 |
|  | Total variable costs (a) × (b) | $59,250 |

c.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.45 per unit × 5,000 units) | $7,250 |
|  | Total fixed manufacturing overhead cost | 18,000 |
|  | Total manufacturing overhead cost (a) | $25,250 |

Difficulty: 1 Easy

Topic: Cost Classifications for Manufacturing Companies; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-02 Identify and give examples of each of the three basic manufacturing cost categories.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

283) A partial listing of costs incurred at Boylen Corporation during March appears below:

|  |  |  |
| --- | --- | --- |
| Direct materials | $ | 181,000 |
| Utilities, factory | $ | 10,000 |
| Sales commissions | $ | 69,000 |
| Administrative salaries | $ | 99,000 |
| Indirect labor | $ | 32,000 |
| Advertising | $ | 75,000 |
| Depreciation of production equipment | $ | 28,000 |
| Direct labor | $ | 120,000 |
| Depreciation of administrative equipment | $ | 49,000 |

**Required**:

a. What is the total amount of product cost listed above? Show your work.

b. What is the total amount of period cost listed above? Show your work.

Answer:

a. Product costs consist of direct materials, direct labor, and manufacturing overhead:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Direct materials |  |  |  | $ | 181,000 |
| Direct labor |  |  |  |  | 120,000 |
| Manufacturing overhead: |  |  |  |  |  |
| Utilities, factory | $ | 10,000 |  |  |  |
| Indirect labor |  | 32,000 |  |  |  |
| Depreciation of production equipment |  | 28,000 |  |  | 70,000 |
| Total product cost |  |  |  | $ | 371,000 |

b. Period costs consist of all costs other than product costs:

|  |  |  |
| --- | --- | --- |
| Sales commissions | $ | 69,000 |
| Administrative salaries |  | 99,000 |
| Advertising |  | 75,000 |
| Depreciation of administrative equipment |  | 49,000 |
| Total period cost | $ | 292,000 |

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

284) Mary Tappin, an assistant Vice President at Galaxy Toys, was disturbed to find on her desk a memo from her boss, Gary Resnick, to the controller of the company. The memo appears below:

GALAXY TOYS INTERNAL MEMO

Sept 15

To: Harry Wilson, Controller

Fm: Gary Resnick, Executive Vice President

As you know, we won't start recording many sales until October when stores start accepting shipments from us for the Christmas season. Meanwhile, we are producing flat-out and are building up our finished goods inventories so that we will be ready to ship next month.

Unfortunately, we are in a bind right now since it looks like the net income for the quarter ending on Sept 30 is going to be pretty awful. This may get us in trouble with the bank since they always review the quarterly financial reports and may call in our loan if they don't like what they see. Is there any possibility that we could change the classification of some of our period costs to product costs—such as the rent on the finished goods warehouse?

Please let me know as soon as possible. The President is pushing for results.

Mary didn't know what to do about the memo. It wasn't intended for her, but its contents were alarming.

**Required:**

a. Why has Gary Resnick suggested reclassifying some period costs as product costs?

b. Why do you think Mary was alarmed about the memo?

Answer:

a. Gary Resnick has suggested reclassifying some period costs as product costs since the company is building up large finished goods inventories in anticipation of the Christmas selling season. Product costs are inventoried and flow through to the income statement only when products are sold. Period expenses, in contrast, flow directly to the income statement. Because most of the finished goods inventories will be held over to the next quarter, reclassifying period costs as product costs will effectively defer recognition of expenses until next quarter and therefore will improve the current quarter's net operating income.

b. Mary Tappin is probably alarmed by both the economic situation the company finds itself in and by the apparent willingness of top management to bend the rules. Improperly reclassifying costs is an indication that top management does not feel like it has to play by the rules or be honest in its dealings with the bank. With such loose ethical standards, Mary may wonder what other unethical things they are doing.

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

285) Marquess Corporation has provided the following partial listing of costs incurred during May:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Marketing salaries | $ | 39,000 |
| Property taxes, factory | $ | 8,000 |
| Administrative travel | $ | 102,000 |
| Sales commissions | $ | 73,000 |
| Indirect labor | $ | 31,000 |
| Direct materials | $ | 197,000 |
| Advertising | $ | 145,000 |
| Depreciation of production equipment | $ | 39,000 |
| Direct labor | $ | 78,000 |

**Required**:

a. What is the total amount of product cost listed above? Show your work.

b. What is the total amount of period cost listed above? Show your work.

Answer:

a. Product costs consist of direct materials, direct labor, and manufacturing overhead:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Direct materials |  |  |  | $ | 197,000 |
| Direct labor |  |  |  |  | 78,000 |
| Manufacturing overhead: |  |  |  |  |  |
| Property taxes, factory | $ | 8,000 |  |  |  |
| Indirect labor |  | 31,000 |  |  |  |
| Depreciation of production equipment |  | 39,000 |  |  | 78,000 |
| Total product cost |  |  |  | $ | 353,000 |

b. Period costs consist of all costs other than product costs:

|  |  |  |
| --- | --- | --- |
| Marketing salaries | $ | 39,000 |
| Administrative travel |  | 102,000 |
| Sales commissions |  | 73,000 |
| Advertising |  | 145,000 |
| Total period cost | $ | 359,000 |

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

286) Classify the following costs for an auto manufacturer as either direct materials, direct labor, manufacturing overhead, or period costs.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Direct Materials | Direct Labor | Manufacturing Overhead | Period Cost |
| a. | Steel used in automobiles |  |  |  |  |
| b. | Assembly department employee wages |  |  |  |  |
| c. | Utility costs used in executive building |  |  |  |  |
| d. | Travel costs of sales personnel |  |  |  |  |
| e. | Cost of shipping goods to customers |  |  |  |  |
| f. | Property taxes on assembly plant |  |  |  |  |
| g. | Glass used in automobiles |  |  |  |  |
| h. | Factory maintenance supplies |  |  |  |  |
| i. | Depreciation on assembly plant |  |  |  |  |
| j. | Plant manager's salary |  |  |  |  |
| k. | CEO's salary |  |  |  |  |
| l. | Depreciation on executive building |  |  |  |  |
| m. | Salary of marketing executive |  |  |  |  |
| n. | Tires installed on automobiles |  |  |  |  |
| o. | Advertising |  |  |  |  |

**Required:**

Complete the answer sheet above by placing an "X" under each heading that identifies the cost involved.

Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Direct Materials | Direct Labor | Manufacturing Overhead | Period Cost |
| a. | Steel used in automobiles | X |  |  |  |
| b. | Assembly department employee wages |  | X |  |  |
| c. | Utility costs used in executive building |  |  |  | X |
| d. | Travel costs of sales personnel |  |  |  | X |
| e. | Cost of shipping goods to customers |  |  |  | X |
| f. | Property taxes on assembly plant |  |  | X |  |
| g. | Glass used in automobiles | X |  |  |  |
| h. | Factory maintenance supplies |  |  | X |  |
| i. | Depreciation on assembly plant |  |  | X |  |
| j. | Plant manager's salary |  |  | X |  |
| k. | CEO's salary |  |  |  | X |
| l. | Depreciation on executive building |  |  |  | X |
| m. | Salary of marketing executive |  |  |  | X |
| n. | Tires installed on automobiles | X |  |  |  |
| o. | Advertising |  |  |  | X |

Difficulty: 2 Medium

Topic: Cost Classifications for Preparing Financial Statements

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

287) Asplund Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $6.25 |  |
|  | Direct labor | $2.90 |  |
|  | Variable manufacturing overhead | $1.30 |  |
|  | Fixed manufacturing overhead |  | $18,000 |
|  | Sales commissions | $1.50 |  |
|  | Variable administrative expense | $0.45 |  |
|  | Fixed selling and administrative expense |  | $7,500 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 5,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 5,000 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.25 |
|  | Direct labor | 2.90 |
|  | Variable manufacturing overhead | 1.30 |
|  | Variable manufacturing cost per unit | $10.45 |
|  |  |  |
|  | Total variable manufacturing cost  ($10.45 per unit × 5,000 units produced) | $52,250 |
|  | Total fixed manufacturing overhead cost | 18,000 |
|  | Total product (manufacturing) cost | $70,250 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | 0.45 |
|  | Variable selling and administrative expense per unit | $1.95 |
|  |  |  |
|  | Total variable selling and administrative expense  ($1.95 per unit × 5,000 units sold) | $9,750 |
|  | Total fixed selling and administrative expense | 7,500 |
|  | Total period (nonmanufacturing) cost | $17,250 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

288) Balerio Corporation's relevant range of activity is 7,000 units to 11,000 units. When it produces and sells 9,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $6.80 |
|  | Direct labor | $3.20 |
|  | Variable manufacturing overhead | $1.60 |
|  | Fixed manufacturing overhead | $13.50 |
|  | Fixed selling expense | $2.25 |
|  | Fixed administrative expense | $1.80 |
|  | Sales commissions | $0.50 |
|  | Variable administrative expense | $0.40 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 9,000 units?

b. If 10,000 units are sold, what is the variable cost per unit sold?

c. If 10,000 units are sold, what is the total amount of variable costs related to the units sold?

d. If the selling price is $18.20 per unit, what is the contribution margin per unit sold?

e. What incremental manufacturing cost will the company incur if it increases production from 9,000 to 9,001 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.80 |
|  | Direct labor | 3.20 |
|  | Variable manufacturing overhead | 1.60 |
|  | Variable manufacturing cost per unit | $11.60 |
|  |  |  |
|  | Total variable manufacturing cost  ($11.60 per unit × 9,000 units produced) | $104,400 |
|  | Total fixed manufacturing overhead cost  ($13.50 per unit × 9,000 units produced) | 121,500 |
|  | Total product (manufacturing) cost | $225,900 |

b.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.80 |
|  | Direct labor | 3.20 |
|  | Variable manufacturing overhead | 1.60 |
|  | Sales commissions | 0.50 |
|  | Variable administrative expense | 0.40 |
|  | Variable cost per unit sold | $12.50 |

c.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $12.50 |
|  | Number of units sold (b) | 10,000 |
|  | Total variable costs (a) × (b) | $125,000 |

d.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $18.20 |
|  | Direct materials | $6.80 |  |
|  | Direct labor | 3.20 |  |
|  | Variable manufacturing overhead | 1.60 |  |
|  | Sales commissions | 0.50 |  |
|  | Variable administrative expense | 0.40 |  |
|  | Variable cost per unit sold |  | 12.50 |
|  | Contribution margin per unit |  | $5.70 |

e.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.80 |
|  | Direct labor | 3.20 |
|  | Variable manufacturing overhead | 1.60 |
|  | Incremental manufacturing cost | $11.60 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

289) Glisan Corporation's relevant range of activity is 4,000 units to 8,000 units. When it produces and sells 6,000 units, its average costs per unit are as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Average Cost per Unit |
|  | Direct materials | $5.75 |
|  | Direct labor | $3.00 |
|  | Variable manufacturing overhead | $1.60 |
|  | Fixed manufacturing overhead | $4.50 |
|  | Fixed selling expense | $0.75 |
|  | Fixed administrative expense | $0.60 |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | $0.55 |

**Required:**

a. For financial reporting purposes, what is the total amount of product costs incurred to make 6,000 units?

b. For financial reporting purposes, what is the total amount of period costs incurred to sell 6,000 units?

c. If 5,000 units are sold, what is the total amount of variable costs related to the units sold?

d. If the selling price is $19.10 per unit, what is the contribution margin per unit sold?

e. What incremental manufacturing cost will the company incur if it increases production from 6,000 to 6,001 units?

Answer:

a.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.75 |
|  | Direct labor | 3.00 |
|  | Variable manufacturing overhead | 1.60 |
|  | Variable manufacturing cost per unit | $10.35 |
|  |  |  |
|  | Total variable manufacturing cost  ($10.35 per unit × 6,000 units produced) | $62,100 |
|  | Total fixed manufacturing overhead cost  ($4.50 per unit × 6,000 units produced) | 27,000 |
|  | Total product (manufacturing) cost | $89,100 |

b.

|  |  |  |
| --- | --- | --- |
|  | Sales commissions | $1.50 |
|  | Variable administrative expense | 0.55 |
|  | Variable selling and administrative expense per unit | $2.05 |
|  |  |  |
|  | Total variable selling and administrative expense  ($2.05 per unit × 6,000 units sold) | $12,300 |
|  | Total fixed selling and administrative expense  ($0.75 per unit × 6,000 units + $0.60 per unit × 6,000 units) | 8,100 |
|  | Total period (nonmanufacturing) cost | $20,400 |

c.

|  |  |  |
| --- | --- | --- |
|  | Variable cost per unit sold (a) | $12.40 |
|  | Number of units sold (b) | 5,000 |
|  | Total variable costs (a) × (b) | $62,000 |

d.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $19.10 |
|  | Direct materials | $5.75 |  |
|  | Direct labor | 3.00 |  |
|  | Variable manufacturing overhead | 1.60 |  |
|  | Sales commissions | 1.50 |  |
|  | Variable administrative expense | 0.55 |  |
|  | Variable cost per unit sold |  | 12.40 |
|  | Contribution margin per unit |  | $6.70 |

e.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $5.75 |
|  | Direct labor | 3.00 |
|  | Variable manufacturing overhead | 1.60 |
|  | Incremental manufacturing cost | $10.35 |

Difficulty: 1 Easy

Topic: Cost Classifications for Preparing Financial Statements; Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-03 Understand cost classifications used to prepare financial statements: product costs and period costs.; 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

290) A number of costs and measures of activity are listed below.

|  |  |  |
| --- | --- | --- |
|  | Cost Description | Possible Measure of Activity |
| 1. | Salary of production manager at a surfboard manufacturer | Surfboards produced |
| 2. | Cost of solder used in making computers | Computers produced |
| 3. | Cost of dough used at a pizza shop | Pizzas cooked |
| 4. | Janitorial wages at a surfboard manufacturer | Surfboards produced |
| 5. | Salary of the controller at a hospital | Number of patients |
| 6. | Cost of sales at an electronics store | Dollar sales |
| 7. | Cost of testing materials used in a medical lab | Tests run |
| 8. | Cost of heating an electronics store | Dollar sales |
| 9. | Cost of electricity for production equipment at a surfboard manufacturer | Surfboards produced |
| 10. | Depreciation on shelving at a book store | Dollar sales |

**Required**:

For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

Answer:

1. Salary of production manager at a surfboard manufacturer; Surfboards produced; Fixed

2. Cost of solder used in making computers; Computers produced; Variable

3. Cost of dough used at a pizza shop; Pizzas cooked; Variable

4. Janitorial wages at a surfboard manufacturer; Surfboards produced; Fixed

5. Salary of the controller at a hospital; Number of patients; Fixed

6. Cost of sales at an electronics store; Dollar sales; Variable

7. Cost of testing materials used in a medical lab; Tests run; Variable

8. Cost of heating an electronics store; Dollar sales; Fixed

9. Cost of electricity for production equipment at a surfboard manufacturer; Surfboards produced; Variable

10. Depreciation on shelving at a book store; Dollar sales; Fixed

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

291) At an activity level of 6,800 units, Henkes Corporation's total variable cost is $125,188 and its total fixed cost is $164,152.

**Required**:

For the activity level of 7,100 units, compute: (a) the total variable cost; (b) the total fixed cost; (c) the total cost; (d) the average variable cost per unit; (e) the average fixed cost per unit; and (f) the average total cost per unit. Assume that this activity level is within the relevant range.

Answer: Variable cost = $125,188 ÷ 6,800 units = $18.41 per unit

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Activity level |  | 7,100 |
| Total cost: |  |  |
| Variable cost (a) [7,100 units × $18.41 per unit] | $ | 130,711 |
| Fixed cost (b) |  | 164,152 |
| Total (c) | $ | 294,863 |
| Cost per unit: |  |  |
| Variable cost (d) | $ | 18.41 |
| Fixed cost (e) [$164,152 ÷ 7,100 units] |  | 23.12 |
| Total (f) | $ | 41.53 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

292) Hinrichs Corporation reports that at an activity level of 2,400 units, its total variable cost is $174,504 and its total fixed cost is $55,080.

**Required**:

For the activity level of 2,700 units, compute: (a) the total variable cost; (b) the total fixed cost; (c) the total cost; (d) the average variable cost per unit; (e) the average fixed cost per unit; and (f) the average total cost per unit. Assume that this activity level is within the relevant range.

Answer: Variable cost = $174,504 ÷ 2,400 units = $72.71 per unit

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Activity level |  | 2,700 |
| Total cost: |  |  |
| Variable cost (a) [2,700 units × $72.71 per unit] | $ | 196,317 |
| Fixed cost (b) |  | 55,080 |
| Total (c) | $ | 251,397 |
| Cost per unit: |  |  |
| Variable cost (d) | $ | 72.71 |
| Fixed cost (e) [$55,080 ÷ 2,700 units] |  | 20.40 |
| Total (f) | $ | 93.11 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

293) A number of costs and measures of activity are listed below.

|  |  |  |
| --- | --- | --- |
|  | Cost Description | Possible Measure of Activity |
| 1. | Cost of vaccine used at a clinic | Vaccines administered |
| 2. | Building rent at a taco shop | Dollar sales |
| 3. | Salary of production manager at a snowboard manufacturer | Snowboards produced |
| 4. | Cost of electricity for production equipment at a snowboard manufacturer | Snowboards produced |
| 5. | Ferry captain's salary on a regularly scheduled passenger ferry | Number of passengers |
| 6. | Cost of glue used in furniture production | Units produced |
| 7. | Janitorial wages at a snowboard manufacturer | Snowboards produced |
| 8. | Depreciation on factory building at a snowboard manufacturer | Snowboards produced |
| 9. | Cost of advertising at a snowboard company | Snowboards sold |
| 10. | Cost of shipping bags of fertilizer to a customer at a chemical plant | Bags shipped |

|  |
| --- |
| **Required**: |

For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

Answer:

1. Cost of vaccine used at a clinic; Vaccines administered; Variable

2. Building rent at a taco shop; Dollar sales; Fixed

3. Salary of production manager at a snowboard manufacturer; Snowboards produced; Fixed

4. Cost of electricity for production equipment at a snowboard manufacturer; Snowboards produced; Variable

5. Ferry captain's salary on a regularly scheduled passenger ferry; Number of passengers; Fixed

6. Cost of glue used in furniture production; Units produced; Variable

7. Janitorial wages at a snowboard manufacturer; Snowboards produced; Fixed

8. Depreciation on factory building at a snowboard manufacturer; Snowboards produced; Fixed

9. Cost of advertising at a snowboard company; Snowboards sold; Fixed

10. Cost of shipping bags of fertilizer to a customer at a chemical plant; Bags shipped; Variable

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; FN Measurement

294) Morrisroe Corporation has provided the following information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cost per Unit | Cost per Period |
|  | Direct materials | $6.65 |  |
|  | Direct labor | $3.30 |  |
|  | Variable manufacturing overhead | $1.70 |  |
|  | Fixed manufacturing overhead |  | $10,000 |
|  | Sales commissions | $1.00 |  |
|  | Variable administrative expense | $0.50 |  |
|  | Fixed selling and administrative expense |  | $5,000 |

**Required:**

a. If the selling price is $25.90 per unit, what is the contribution margin per unit sold?

b. What incremental manufacturing cost will the company incur if it increases production from 5,000 to 5,001 units?

Answer:

a.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Selling price per unit |  | $25.90 |
|  | Direct materials | $6.65 |  |
|  | Direct labor | 3.30 |  |
|  | Variable manufacturing overhead | 1.70 |  |
|  | Sales commissions | 1.00 |  |
|  | Variable administrative expense | 0.50 |  |
|  | Variable cost per unit sold |  | 13.15 |
|  | Contribution margin per unit |  | $12.75 |

b.

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $6.65 |
|  | Direct labor | 3.30 |
|  | Variable manufacturing overhead | 1.70 |
|  | Incremental manufacturing cost | $11.65 |

Difficulty: 1 Easy

Topic: Cost Classifications for Predicting Cost Behavior; Cost Classifications for Decision Making; Using Different Cost Classifications for Different Purposes

Learning Objective: 01-04 Understand cost classifications used to predict cost behavior: variable costs, fixed costs, and mixed costs.; 01-05 Understand cost classifications used in making decisions: differential costs, sunk costs, and opportunity costs.; 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

295) In April, Holderness Inc, a merchandising company, had sales of $221,000, selling expenses of $14,000, and administrative expenses of $25,000. The cost of merchandise purchased during the month was $155,000. The beginning balance in the merchandise inventory account was $34,000 and the ending balance was $48,000.

**Required:**

Prepare a traditional format income statement for April.

Answer:

|  |  |  |
| --- | --- | --- |
| Traditional Format Income Statement | | |
| Sales |  | $221,000 |
| Cost of goods sold\* |  | 141,000 |
| Gross margin |  | 80,000 |
| Selling and administrative expenses: |  |  |
| Selling expenses | $14,000 |  |
| Administrative expenses | 25,000 | 39,000 |
| Net operating income |  | $41,000 |

\*Cost of goods sold = Beginning merchandise inventory + Purchases - Ending merchandise inventory

Cost of goods sold = $34,000 + $155,000 — $48,000 = $141,000

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

296) Fanelli Corporation, a merchandising company, reported the following results for July:

|  |  |  |
| --- | --- | --- |
|  | Number of units sold | 5,300 |
|  | Selling price per unit | $590 |
|  | Unit cost of goods sold | $403 |
|  | Variable selling expense per unit | $58 |
|  | Total fixed selling expense | $124,400 |
|  | Variable administrative expense per unit | $22 |
|  | Total fixed administrative expense | $206,300 |

Cost of goods sold is a variable cost in this company.

**Required:**

a. Prepare a traditional format income statement for July.

b. Prepare a contribution format income statement for July.

Answer:

a. Traditional Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales (5,300 units × $590 per unit) |  | $3,127,000 |
| Cost of goods sold (5,300 units × $403 per unit) |  | 2,135,900 |
| Gross margin |  | 991,100 |
| Selling and administrative expenses: |  |  |
| Selling expense ((5,300 units × $58 per unit) + $124,400) | $431,800 |  |
| Administrative expense ((5,300 units × $22 per unit) + $206,300) | 322,900 | 754,700 |
| Net operating income |  | $236,400 |

b. Contribution Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales (5,300 units × $590 per unit) |  | $3,127,000 |
| Variable expenses: |  |  |
| Cost of goods sold (5,300 units × $403 per unit) | $2,135,900 |  |
| Variable selling expense (5,300 units × $58 per unit) | 307,400 |  |
| Variable administrative expense (5,300 units × $22 per unit) | 116,600 | 2,559,900 |
| Contribution margin |  | 567,100 |
| Fixed expenses: |  |  |
| Fixed selling expense | 124,400 |  |
| Fixed administrative expense | 206,300 | 330,700 |
| Net operating income |  | $236,400 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

297) Weingartner Corporation, a merchandising company, reported sales of 4,800 units for July at a selling price of $269 per unit. The cost of goods sold (all variable) was $114 per unit and the variable selling expense was $6 per unit. The total fixed selling expense was $38,100. The variable administrative expense was $14 per unit and the total fixed administrative expense was $59,900.

**Required:**

a. Prepare a contribution format income statement for July.

b. Prepare a traditional format income statement for July.

Answer: a. Contribution Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales (4,800 units × $269 per unit) |  | $1,291,200 |
| Variable expenses: |  |  |
| Cost of goods sold (4,800 units × $114 per unit) | $547,200 |  |
| Variable selling expense (4,800 units × $6 per unit) | 28,800 |  |
| Variable administrative expense (4,800 units × $14 per unit) | 67,200 | 643,200 |
| Contribution margin |  | 648,000 |
| Fixed expenses: |  |  |
| Fixed selling expense | 38,100 |  |
| Fixed administrative expense | 59,900 | 98,000 |
| Net operating income |  | $550,000 |

b. Traditional Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales (4,800 units × $269 per unit) |  | $1,291,200 |
| Cost of goods sold (4,800 units × $114 per unit) |  | 547,200 |
| Gross margin |  | 744,000 |
| Selling and administrative expenses: |  |  |
| Selling expense ((4,800 units × $6 per unit) + $38,100) | $66,900 |  |
| Administrative expense ((4,800 units × $14 per unit) + $59,900) | 127,100 | 194,000 |
| Net operating income |  | $550,000 |

Difficulty: 2 Medium

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

298) Wippert Corporation, a merchandising company, reported the following results for December:

|  |  |  |
| --- | --- | --- |
|  | Sales | $2,296,200 |
|  | Cost of goods sold (all variable) | $997,600 |
|  | Total variable selling expense | $86,000 |
|  | Total fixed selling expense | $57,100 |
|  | Total variable administrative expense | $43,000 |
|  | Total fixed administrative expense | $148,100 |

**Required:**

a. Prepare a traditional format income statement for December.

b. Prepare a contribution format income statement for December.

Answer:

a. Traditional Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales |  | $2,296,200 |
| Cost of goods sold |  | 997,600 |
| Gross margin |  | 1,298,600 |
| Selling and administrative expenses: |  |  |
| Selling expense | $143,100 |  |
| Administrative expense | 191,100 | 334,200 |
| Net operating income |  | $964,400 |

b. Contribution Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales |  | $2,296,200 |
| Variable expenses: |  |  |
| Cost of goods sold | $997,600 |  |
| Variable selling expense | 86,000 |  |
| Variable administrative expense | 43,000 | 1,126,600 |
| Contribution margin |  | 1,169,600 |
| Fixed expenses: |  |  |
| Fixed selling expense | 57,100 |  |
| Fixed administrative expense | 148,100 | 205,200 |
| Net operating income |  | $964,400 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

299) Bauman Sales Corporation, a merchandising company, reported total sales of $4,069,800 for November. The cost of goods sold (all variable) was $2,351,100, the total variable selling expense was $204,000, the total fixed selling expense was $117,700, the total variable administrative expense was $102,000, and the total fixed administrative expense was $267,000.

**Required:**

a. Prepare a contribution format income statement for November.

b. Prepare a traditional format income statement for November.

Answer:

a. Contribution Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales |  | $4,069,800 |
| Variable expenses: |  |  |
| Cost of goods sold | $2,351,100 |  |
| Variable selling expense | 204,000 |  |
| Variable administrative expense | 102,000 | 2,657,100 |
| Contribution margin |  | 1,412,700 |
| Fixed expenses: |  |  |
| Fixed selling expense | 117,700 |  |
| Fixed administrative expense | 267,000 | 384,700 |
| Net operating income |  | $1,028,000 |

b. Traditional Format Income Statement

|  |  |  |
| --- | --- | --- |
| Sales |  | $4,069,800 |
| Cost of goods sold |  | 2,351,100 |
| Gross margin |  | 1,718,700 |
| Selling and administrative expenses: |  |  |
| Selling expense | $321,700 |  |
| Administrative expense | 369,000 | 690,700 |
| Net operating income |  | $1,028,000 |

Difficulty: 1 Easy

Topic: Using Different Cost Classifications for Different Purposes

Learning Objective: 01-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement