File: 17e\_GNB\_CH01TB, Chapter 1, Managerial Accounting and Cost Concepts

**True/False**

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-01

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-01

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-01

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

5. Selling costs are indirect costs.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-02

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-02

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

8. Administrative costs are indirect costs.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-02

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 3 Hard

Learning Objective: 01-02

Learning Objective: 01-05

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 3 Hard

Learning Objective: 01-03

Topic Area:

Blooms: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

17. Product costs are also known as inventoriable costs.

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

18. Prime cost equals manufacturing overhead cost.

Answer: F

Difficulty: 3 Hard

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 3 Hard

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 3 Hard

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

47. Differential costs can only be variable.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-04

Learning Objective: 01-05

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-05

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-05

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-05

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: F

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: F

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-06

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-06

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

**Multiple Choice**

[QUESTION]

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

Learning Objective: 01-01

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-01

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-01

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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?

|  |  |  |
| --- | --- | --- |
|  | Direct Cost | Fixed Cost |
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-01

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-02

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-02

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

73. Wages paid to the factory warehouse foreman are considered an example of:

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

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

82. Direct labor cost is classified as:

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

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-03

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-03

Learning Objective: 01-04

Learning Objective: 01-05

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

87. Factory overhead is typically a(n):

A) mixed cost.

B) fixed cost.

C) variable cost.

D) irrelevant cost.

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: B

Difficulty: 3 Hard

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Source: CIMA, adapted

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: D

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Learning Objective: 01-05

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

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

Learning Objective: 01-05

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

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

Learning Objective: 01-05

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

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

Learning Objective: 01-05

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

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

Learning Objective: 01-06

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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 |

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-06

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

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

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.30 per unit x 6,000 units) | $7,800 |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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.

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

Conversion cost = Direct labor + Manufacturing overhead

= $13,000 + $46,000 = $59,000

[QUESTION]

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

Learning Objective: 01-02

Difficulty: 3 Hard

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 3 Hard

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 3 Hard

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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 x Conversion cost = 0.60 x $135,000 = $81,000

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01-02

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

Prime cost = Direct materials + Direct labor

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

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

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit x 4,000 units) | $6,400 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit x 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.

[QUESTION]

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 |

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 9,000 units sold) | $9,000 |
|  | Total fixed selling and administrative expense | 40,500 |
|  | Total period (nonmanufacturing) cost | $49,500 |

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 5,000 units produced) | $55,750 |
|  | Total fixed manufacturing overhead cost | 10,000 |
|  | Total product (manufacturing) cost | $65,750 |

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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.

A) $1,197,658

B) $1,191,000

C) $1,179,090

D) $1,202,910

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

Y = $5,300 + ($0.60 per unit × X)

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

= $5,300 + $4,800

= $10,100

[QUESTION]

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 unit, 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.

A) $107.93

B) $107.18

C) $108.67

D) $108.24

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

Variable cost per unit = $556,416 ÷ 7,200 units = $77.28 per unit

Fixed cost per unit at 7,300 units = $226,008 ÷ 7,300 units = $30.96 per unit

Total cost = Variable cost + Fixed cost

= $77.28 per unit + $30.96 per unit

= $108.24 per unit

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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.

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

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) $19,600

D) $16,000

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

Y = $16,000 + ($3.40 per unit × X)

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

= $16,000 + $13,600

= $29,600

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

Y = $23,000 + $56,000

Y = $79,000

[QUESTION]

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.

A) $1,175,210

B) $1,169,685

C) $1,161,384

D) $1,168,297

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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 | ? |
|  | Manufacturing overhead | 20,000 | ? |
|  | Total cost | $58,000 | $61,300 |

Assuming that these activity levels are within the relevant range, the manufacturing overhead for July was:

A) $21,600

B) $20,000

C) $22,000

D) $19,500

Answer: A

Difficulty: 3 Hard

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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 + Manufacturing overhead

$61,300 = $18,700 + $21,000 + Manufacturing overhead

Manufacturing overhead = $61,300 – ($18,700 + $21,000)

= $61,300 – $39,700

= $21,600

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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.

[QUESTION]

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:

A) $35,600

B) $21,600

C) $32,000

D) $18,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $79,500 |

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP05A-RefFeedback:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | 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.

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

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:

A) $26.75

B) $12.80

C) $30.05

D) $24.50

Answer: B

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 2 Medium

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

[QUESTION]

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

Difficulty: 1 Easy

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

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

Reference: CH01-Ref1

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.

[QUESTION]

152. 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

Difficulty: 1 Easy

Learning Objective: 01-01Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref1Feedback:

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

[QUESTION]

153. 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

Difficulty: 2 Medium

Learning Objective: 01-01Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref1Feedback:

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

Reference: CH01-Ref2

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.

[QUESTION]

154. 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

Difficulty: 1 Easy

Learning Objective: 01-01Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref2Feedback:

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

[QUESTION]

155. 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

Difficulty: 2 Medium

Learning Objective: 01-01Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref2Feedback:

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

Reference: CH01-Ref3

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 |

[QUESTION]

156. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref3

Feedback:

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

[QUESTION]

157. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref3

Feedback:

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

[QUESTION]

158. 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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref3

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

159. 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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref3

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.40 per unit x 3,000 units) | $4,200 |
|  | Total fixed manufacturing overhead cost ($2.60 per unit x 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.

Reference: CH01-Ref4

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 |

[QUESTION]

160. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref4

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units produced) | $44,400 |
|  | Total fixed manufacturing overhead cost | 8,800 |
|  | Total product (manufacturing) cost | $53,200 |

[QUESTION]

161. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref4

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units sold) | $5,600 |
|  | Total fixed selling and administrative expense | 4,000 |
|  | Total period (nonmanufacturing) cost | $9,600 |

[QUESTION]

162. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref4

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

163. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref4

Feedback:

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

Reference: CH01-Ref5

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 |

[QUESTION]

164. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 5,000 units produced) | $61,000 |
|  | Total fixed manufacturing overhead cost | 11,000 |
|  | Total product (manufacturing) cost | $72,000 |

[QUESTION]

165. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 5,000 units sold) | $7,000 |
|  | Total fixed selling and administrative expense | 5,500 |
|  | Total period (nonmanufacturing) cost | $12,500 |

[QUESTION]

166. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

167. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $54,400 |

[QUESTION]

168. 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

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

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

[QUESTION]

169. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

170. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

171. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

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

[QUESTION]

172. 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

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref5

Feedback:

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

Reference: CH01-Ref6

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 |

[QUESTION]

173. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref6

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

174. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref6

Feedback:

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

Reference: CH01-Ref7

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 |

[QUESTION]

175. 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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref7

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

176. 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

Difficulty: 2 Medium

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref7

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.75 per unit x 8,000 units) | $14,000 |
|  | Total fixed manufacturing overhead cost ($9.90 per unit x 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.

Reference: CH01-Ref8

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 |

[QUESTION]

177. 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

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref8

Feedback:

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

[QUESTION]

178. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref8

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

179. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref8

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

180. 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

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref8

Feedback:

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

[QUESTION]

181. 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

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref8

Feedback:

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

Reference: CH01-Ref9

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 |

[QUESTION]

182. What is the total of the direct costs above?

A) $65,000

B) $112,000

C) $155,000

D) $202,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-01Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref9Feedback:

Solution: 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

[QUESTION]

183. What is the total of the product costs above?

A) $0

B) $69,000

C) $155,000

D) $159,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref9Feedback:

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

[QUESTION]

184. What is the total of the conversion costs above?

A) $65,000

B) $69,000

C) $90,000

D) $155,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref9Feedback:

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

Reference: CH01-Ref10

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 |

[QUESTION]

185. 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

Difficulty: 2 Medium

Learning Objective: 01-02 Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref10Feedback:

Manufacturing overhead includes: Utilities, factory; Indirect labor; and Depreciation of production equipment.

$5,000 + $25,000 + $20,000 = $50,000

[QUESTION]

186. 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

Difficulty: 2 Medium

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref10Feedback:

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

[QUESTION]

187. 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

Difficulty: 2 Medium

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref10Feedback:

Period costs include: Administrative salaries; Sales commissions; Depreciation of administrative equipment; and Advertising.

$81,000 + $48,000 + $30,000 + $135,000 = $294,000

Reference: CH01-Ref11

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 |

[QUESTION]

188. 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

Difficulty: 2 Medium

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref11Feedback:

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

[QUESTION]

189. 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

Difficulty: 2 Medium

Learning Objective: 01-02Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref11Feedback:

Manufacturing overhead costs include factory supplies, factory depreciation, and indirect labor.

$9,000 + $33,000 + $26,000 = $68,000

[QUESTION]

190. 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

Difficulty: 2 Medium

Learning Objective: 01-02Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref11Feedback:

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

Reference: CH01-Ref12

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 |

[QUESTION]

191. 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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref12

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost ($13.50 per unit x 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.

[QUESTION]

192. 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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref12

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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.

[QUESTION]

193. 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

Difficulty: 2 Medium

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref12

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.30 per unit x 10,000 units) | $13,000 |
|  | Total fixed manufacturing overhead cost  ($13.50 per unit x 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.

Reference: CH01-Ref13

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 |

[QUESTION]

194. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref13

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

195. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref13

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $60,250 |

[QUESTION]

196. 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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref13

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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.

[QUESTION]

197. 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

Difficulty: 2 Medium

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref13

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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.

[QUESTION]

198. 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

Difficulty: 2 Medium

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref13

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.70 per unit x 5,000 units) | $8,500 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit x 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.

Reference: CH01-Ref14

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 |

[QUESTION]

199. 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

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref14

Feedback:

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

[QUESTION]

200. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref14

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

201. 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

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref14

Feedback:

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

Reference: CH01-Ref15

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 |

[QUESTION]

202. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref15

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

203. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref15

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $50,600 |

[QUESTION]

204. 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

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref15

Feedback:

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

[QUESTION]

205. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref15

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

Reference: CH01-Ref16

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 |

[QUESTION]

206. The conversion cost for November was:

A) $187,000

B) $112,000

C) $136,000

D) $140,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref16Feedback:

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

[QUESTION]

207. The prime cost for November was:

A) $136,000

B) $60,000

C) $105,000

D) $112,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref16Feedback:

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

Reference: CH01-Ref17

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.

[QUESTION]

208. The conversion cost for November was:

A) $116,000

B) $79,000

C) $87,000

D) $129,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref17Feedback:

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

[QUESTION]

209. The prime cost for November was:

A) $79,000

B) $59,000

C) $67,000

D) $87,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref17Feedback:

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

Reference: CH01-Ref18

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 |

[QUESTION]

210. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref18

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

211. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref18

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $51,400 |

Reference: CH01-Ref19

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 |

[QUESTION]

212. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref19

Feedback:

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

[QUESTION]

213. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref19

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units sold) | $8,000 |
|  | Total fixed selling and administrative expense  ($0.50 per unit x 4,000 units + $0.40 per unit x 4,000 units) | 3,600 |
|  | Total period (nonmanufacturing) cost | $11,600 |

Reference: CH01-Ref20

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 |

[QUESTION]

214. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref20

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units produced) | $38,200 |
|  | Total fixed manufacturing overhead cost | 8,000 |
|  | Total product (manufacturing) cost | $46,200 |

[QUESTION]

215. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref20

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units sold) | $7,800 |
|  | Total fixed selling and administrative expense | 4,400 |
|  | Total period (nonmanufacturing) cost | $12,200 |

[QUESTION]

216. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref20

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

217. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref20

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $57,500 |

Reference: CH01-Ref21

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 |

[QUESTION]

218. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref21

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 9,000 units produced) | $107,550 |
|  | Total fixed manufacturing overhead cost | 81,000 |
|  | Total product (manufacturing) cost | $188,550 |

[QUESTION]

219. 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

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref21

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 x 9,000 units sold) | $9,000 |
|  | Total fixed selling and administrative expense | 44,550 |
|  | Total period (nonmanufacturing) cost | $53,550 |

Reference: CH01-Ref22

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.

[QUESTION]

220. 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

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Reflective ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref22Feedback:

[QUESTION]

221. 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

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Reflective ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref22Feedback:

[QUESTION]

222. 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

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Reflective ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref22Feedback:

[QUESTION]

223. 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

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Reflective ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref22Feedback:

[QUESTION]

224. 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

Learning Objective: 01-03Topic Area:Blooms: ApplyAACSB: Reflective ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref22Feedback:

Reference: CH01-Ref23

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.

[QUESTION]

225. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref23Feedback:

$733,400; A fixed cost is constant in total within the relevant range.

[QUESTION]

226. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref23Feedback:

Average property tax per unit = Total property tax ÷ Unit sales = $733,400 ÷ 37,300 units = $19.66 per unit

Reference: CH01-Ref24

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.

[QUESTION]

227. 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.)

A) $442,545

B) $452,500

C) $473,326

D) $432,590

Answer: D

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref24Feedback:

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

[QUESTION]

228. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref24Feedback:

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.

Reference: CH01-Ref25

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.

[QUESTION]

229. 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

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref25Feedback:

[QUESTION]

230. 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

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref25Feedback:

[QUESTION]

231. 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

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref25Feedback:

[QUESTION]

232. 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

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref25Feedback:

Reference: CH01-Ref26

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.

[QUESTION]

233. 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.)

A) $126,720

B) $132,000

C) $121,440

D) $143,478

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref26Feedback:

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

[QUESTION]

234. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref26Feedback:

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.

Reference: CH01-Ref27

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 |

[QUESTION]

235. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref27

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

236. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref27

Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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) x (b) | $60,500 |

Reference: CH01-Ref28

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.

[QUESTION]

237. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref28Feedback:

$697,200; A fixed cost is constant in total within the relevant range.

[QUESTION]

238. 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

Difficulty: 1 Easy

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref28Feedback:

Average lease cost per unit = Total lease cost ÷ Unit sales

= $697,200 ÷ 26,400 units

= $26.41 per unit

Reference: CH01-Ref29

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.

[QUESTION]

239. 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.

A) $137,020

B) $131,750

C) $162,950

D) $32,448

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref29

Feedback:

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

[QUESTION]

240. 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

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref29

Feedback:

Average fixed cost per unit = Total fixed cost ÷ Total activity

= $31,200 ÷ 5,200 units

= $6.00 per unit

Reference: CH01-Ref30

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.

[QUESTION]

241. 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.

A) $758,520

B) $403,248

C) $390,240

D) $380,556

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref30

Feedback:

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

[QUESTION]

242. 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

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref30

Feedback:

Average fixed maintenance cost = Total fixed maintenance cost ÷ Total activity = $368,280 ÷ 9,300 machine-hours = $39.60 per machine-hour

Reference: CH01-Ref31

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.

[QUESTION]

243. 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

Difficulty: 2 Medium

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref31Feedback:

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

[QUESTION]

244. If Lonnie were to sell 50,000 units, the total expected cost per unit would be:

A) $2.20

B) $2.30

C) $2.50

D) $2.00

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-04Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref31Feedback:

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

Reference: CH01-Ref32

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.

[QUESTION]

245. 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

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref32

Feedback:

Average fixed inspection cost = Total fixed inspection cost ÷ Total activity

= $9,072 ÷ 2,400 machine-hours

= $3.78 per machine-hour

[QUESTION]

246. 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.

A) $78,918

B) $69,846

C) $79,824

D) $10,368

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref32

Feedback:

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

Reference: CH01-Ref33

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 |

[QUESTION]

247. 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

Difficulty: 1 Easy

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref33

Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

248. 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

Difficulty: 1 Easy

Learning Objective: 01--05

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Refer To: CH01-Ref33

Feedback:

|  |  |  |
| --- | --- | --- |
|  | Direct materials | $4.85 |
|  | Direct labor | 4.20 |
|  | Variable manufacturing overhead | 1.55 |
|  | Incremental manufacturing cost | $10.60 |

Reference: CH01-Ref34

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.

[QUESTION]

249. 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

Difficulty: 2 Medium

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref34Feedback:

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 x 20,000 books) | 60,000 |  |
|  | Variable administrative (5% of $800,000)) | 40,000 | 660,000 |
|  | Contribution margin |  | $140,000 |

[QUESTION]

250. 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

Difficulty: 1 Easy

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref34Feedback:

Unit sales = $800,000 ÷ $40 per book = 20,000 books

Fixed selling expense = $100,000 − $3 per book x 20,000 books = $40,000

Fixed administrative expense = $110,000 – 0.05 x $800,000 = $70,000

|  |  |  |  |
| --- | --- | --- | --- |
|  | Sales |  | $800,000 |
|  | Variable expenses: |  |  |
|  | Cost of goods sold | $560,000 |  |
|  | Variable selling ($3 per book x 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 |

[QUESTION]

251. 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

Difficulty: 2 Medium

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref34Feedback:

Unit sales = $800,000 ÷ $40 per book = 20,000 books

Fixed selling expense = $100,000 − $3 per book x 20,000 books = $40,000

Fixed administrative expense = $110,000 – 0.05 x $800,000 = $70,000

Y = ($40,000 + $70,000) + ($3 per book + 0.05 x $40 per book) X

Y = $110,000 + $5X

[QUESTION]

252. 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

Difficulty: 2 Medium

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref34Feedback:

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 x 25,000 books) |  | $1,000,000 |
|  | Variable expenses: |  |  |
|  | Cost of goods sold ($28 per book x 25,000 books) | $700,000 |  |
|  | Variable selling ($3 per book x 25,000 books) | 75,000 |  |
|  | Variable administrative (5% of $1,000,000)) | 50,000 | 825,000 |
|  | Contribution margin |  | $175,000 |

Reference: CH01-Ref35

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.

[QUESTION]

253. 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

Difficulty: 2 Medium

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref35Feedback:

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 x 18,000 books) | 90,000 |  |
|  | Variable administrative (4% of $900,000) | 36,000 | 756,000 |
|  | Contribution margin |  | $144,000 |

[QUESTION]

254. 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

Difficulty: 3 Hard

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref35Feedback:

Unit sales = $900,000 ÷ $50 per book = 18,000 books

Selling expenses = Fixed selling expenses + ($5 per book x 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 x 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 |

[QUESTION]

255. 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

Difficulty: 3 Hard

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref35Feedback:

Unit sales = $900,000 ÷ $50 per book = 18,000 books

Selling expenses = Fixed selling expenses + ($5 per book x 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 x $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 x $50 per book = $2 per book

Y = ($10,000 + $68,000) + ($5 + $2) X

Y = $78,000 + $7X

[QUESTION]

256. 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

Difficulty: 3 Hard

Learning Objective: 01-04Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref35Feedback:

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 x 20,000 books) |  | $1,000,000 |
|  | Variable expenses: |  |  |
|  | Cost of goods sold ($35 per book x 20,000 books) | $700,000 |  |
|  | Variable selling ($5 per book x 20,000 books) | 100,000 |  |
|  | Variable administrative (4% of $1,000,000) | 40,000 | 840,000 |
|  | Contribution margin |  | $160,000 |

Reference: CH01-Ref36

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.

[QUESTION]

257. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref36Feedback:

Differential cost = $545,000 − $450,000 = $95,000

[QUESTION]

258. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref36Feedback:

Sunk cost = Cost of old machine = $527,000

[QUESTION]

259. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref36Feedback:

Opportunity cost = Return from alternative investment = $532,000

Reference: CH01-Ref37

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.

[QUESTION]

260. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref37Feedback:

Sunk cost = Cost of old machine = $348,000

[QUESTION]

261. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref37Feedback:

Differential cost = $360,000 − $340,000 = $20,000

[QUESTION]

262. 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

Difficulty: 1 Easy

Learning Objective: 01-05Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN Decision MakingRefer To: CH01-Ref37Feedback:

Opportunity cost = Return from alternative investment = $411,000

Reference: CH01-Ref38

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 |

[QUESTION]

263. The gross margin for October is:

A) $1,424,500

B) $1,901,900

C) $996,900

D) $3,668,800

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref38Feedback:

|  |  |  |
| --- | --- | --- |
|  | Sales | $4,096,400 |
|  | Cost of goods sold | 2,194,500 |
|  | Gross margin | $1,901,900 |

[QUESTION]

264. The contribution margin for October is:

A) $1,424,500

B) $3,191,400

C) $1,901,900

D) $996,900

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref38Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

Reference: CH01-Ref39

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 |

[QUESTION]

265. The cost of goods sold for June was:

A) $128,000

B) $181,000

C) $122,000

D) $134,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref39Feedback:

Cost of goods sold = Beginning merchandise inventory + Purchases of merchandise inventory − Ending merchandise inventory

= $46,000 + $128,000 − $52,000

= $122,000

[QUESTION]

266. The net operating income for June was:

A) $132,000

B) $126,000

C) $85,000

D) $79,000

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref39Feedback:

Net operating income = Sales − Cost of goods sold − Selling and administrative expenses

= $260,000 − $122,000 − ($13,000 + $40,000)

= $85,000

Reference: CH01-Ref40

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.

[QUESTION]

267. The contribution margin for September was:

A) $3,878,400

B) $2,122,900

C) $2,591,500

D) $1,627,700

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref40Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

268. The gross margin for September was:

A) $2,122,900

B) $2,591,500

C) $1,627,700

D) $4,347,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref40Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

Reference: CH01-Ref41

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.

[QUESTION]

269. The gross margin for June is:

A) $242,600

B) $148,800

C) $124,800

D) $102,200

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref41Feedback:

|  |  |  |
| --- | --- | --- |
|  | 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 |

[QUESTION]

270. The contribution margin for June is:

A) $148,800

B) $102,200

C) $218,600

D) $124,800

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref41Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

Reference: CH01-Ref42

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.

[QUESTION]

271. The contribution margin for December is:

A) $530,400

B) $227,700

C) $1,252,800

D) $362,100

Answer: D

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref42Feedback:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 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 |

[QUESTION]

272. The gross margin for December is:

A) $530,400

B) $227,700

C) $362,100

D) $1,421,100

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-06Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: CH01-Ref42Feedback:

|  |  |  |
| --- | --- | --- |
|  | Sales | $1,555,500 |
|  | Cost of goods sold | 1,025,100 |
|  | Gross margin | $530,400 |

**Essay**

[QUESTION]

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

Learning Objective: 01-01

Topic Area:

Blooms: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 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 x 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) x (b) | $143,500 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.60 per unit x 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 x 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

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 5,000 units produced) | $52,250 |
|  | Total fixed manufacturing overhead cost ($3.90 per unit x 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 x 5,000 units sold) | $5,000 |
|  | Total fixed selling and administrative expense  ($0.75 per unit x 5,000 units + $0.60 per unit x 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) x (b) | $68,700 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost ($3.90 per unit x 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 x 6,000 units) | $9,000 |
|  | Total fixed manufacturing overhead cost  ($3.90 per unit x 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 x 4,000 units) | $6,000 |
|  | Total fixed manufacturing overhead cost ($3.90 per unit x 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

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 6,000 units produced) | $70,800 |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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 x 6,000 units sold) | $11,700 |
|  | Total fixed selling and administrative expense  ($0.75 per unit x 6,000 units + $0.60 per unit x 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 x 7,000 units) | $11,200 |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 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 x 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 x 7,000 units) | $9,450 |
|  | Total fixed manufacturing overhead cost | 27,000 |
|  | Total indirect manufacturing cost | $36,450 |

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 6,000 units) | $7,500 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit x 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.

ci.

|  |  |  |
| --- | --- | --- |
|  | 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 x 4,000 units) | $5,000 |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 8,000 units) | $12,000 |
|  | Total fixed manufacturing overhead cost | 121,500 |
|  | Total indirect manufacturing cost | $133,500 |

Difficulty: 1 Easy

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 8,000 units) | $12,800 |
|  | Total fixed manufacturing overhead cost ($12.60 per unit x 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

Learning Objective: 01--01

Learning Objective: 01--02

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 4,000 units produced) | $39,800 |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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 x 4,000 units sold) | $7,800 |
|  | Total fixed selling and administrative expense  ($0.70 per unit x 4,000 units + $0.40 per unit x 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) x (b) | $59,500 |

e.

|  |  |  |
| --- | --- | --- |
|  | Total fixed manufacturing overhead cost ($3.00 per unit x 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 x 5,000 units) | $6,750 |
|  | Total fixed manufacturing overhead cost  ($3.00 per unit x 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

Learning Objective: 01--02

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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) x (b) | $59,250 |

c.

|  |  |  |
| --- | --- | --- |
|  | Total variable manufacturing overhead cost  ($1.45 per unit x 5,000 units) | $7,250 |
|  | Total fixed manufacturing overhead cost | 18,000 |
|  | Total manufacturing overhead cost (a) | $25,250 |

Difficulty: 1 Easy

Learning Objective: 01--02

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Reporting

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-03

Topic Area:

Blooms: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 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 x 5,000 units sold) | $9,750 |
|  | Total fixed selling and administrative expense | 7,500 |
|  | Total period (nonmanufacturing) cost | $17,250 |

Difficulty: 1 Easy

Learning Objective: 01--03

Learning Objective: 01--04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 9,000 units produced) | $104,400 |
|  | Total fixed manufacturing overhead cost ($13.50 per unit x 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) x (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

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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 x 6,000 units produced) | $62,100 |
|  | Total fixed manufacturing overhead cost ($4.50 per unit x 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 x 6,000 units sold) | $12,300 |
|  | Total fixed selling and administrative expense  ($0.75 per unit x 6,000 units + $0.60 per unit x 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) x (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

Learning Objective: 01--03

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-04

Topic Area:

Blooms: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01--04

Learning Objective: 01--05

Learning Objective: 01--06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

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

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

298. 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

Learning Objective: 01-06

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement