

Chapter 1 Question Review

1. Which of the following is not a characteristic of managerial accounting:
 - a) Emphasizes decisions affecting the future
 - b) Mandatory for external reports
 - c) Need not follow GAAP
 - d) Reports to those inside the organization

2. Which of the following is not a manufacturing cost:
 - a) Direct materials
 - b) Manufacturing overhead
 - c) Administrative costs
 - d) Direct labor

3. Which is not an inventory account manufacturing companies have:
 - a) Raw Materials
 - b) Manufacturing Overhead
 - c) Work in Process
 - d) Finished Goods

4. Costs that are taken directly to the income statement as expenses in the period in which they are incurred are:
 - a) Product costs
 - b) Direct costs
 - c) Indirect costs
 - d) Period costs

5. A direct cost is one which:
 - a) Is not worth the effort of tracing to a specific cost object
 - b) Remains constant no matter the activity level
 - c) Can be easily and conveniently traced to a specific cost object
 - d) Do not physically become part of the finished product

6. The costs of prescription drugs administered to patients by nurses on the fourth floor of Central Hospital should be classified as:
 - a) Direct patient costs.
 - b) Indirect patient costs.
 - c) Overhead costs of the nursing station.
 - d) Period costs of the hospital.

7. Which of the following would most likely be included as part of manufacturing overhead in the production of a wooden table?
 - a) The amount paid to the individual who stains the table.
 - b) The commission paid to the salesperson who sold the table.
 - c) The cost of glue used in the table.
 - d) The cost of the wood used in the table.

8. The Cost of Goods Manufactured can be shown with which equation?
- Beginning Work in Process+ Total Manufacturing Cost- Ending Work in Process
 - Direct Materials Used + Direct Labor + Manufacturing Overhead
 - Raw Materials + Work in Process + Finished Goods
 - Beginning Raw Material + Purchases – Ending Raw Materials
9. Cost of Goods Sold equation uses which of the following accounts?
- Work in Process
 - Finished Goods
 - Raw Materials
 - Manufacturing Overhead

10. ABC Company provided the following information regarding its first year of operations:

| | |
|--------------------------------|----------|
| Administrative salaries | \$60,000 |
| Factory depreciation | 16,000 |
| Indirect materials | 4,000 |
| Marketing expenses | 40,000 |
| Factory supervision salaries | 28,000 |
| Direct labor | 80,000 |
| Direct materials used | 100,000 |
| Research and development costs | 32,000 |
| Factory building rent | 18,000 |
| Sales revenues | 432,000 |
| Sales staff salaries | 32,000 |
| Headquarters building rent | 17,000 |
| Selling expenses | 7,000 |

What is the total Product costs?

- \$66,000
- \$180,000
- \$188,000
- \$246,000

11. ABC Company reported the following data for the month of August:

| | | | |
|---------------------------|------------------|---|---------------|
| | <u>Beginning</u> | | <u>Ending</u> |
| Raw materials inventory | \$28,000 | ? | |
| Work-in-process inventory | ? | | 25,000 |
| Finished goods inventory | 37,000 | | 55,000 |

| | <u>August Activity</u> |
|----------------------------|------------------------|
| Direct materials purchases | \$72,000 |
| Cost of goods manufactured | 307,000 |
| Direct labor incurred | 112,000 |
| Cost of goods sold | ? |
| Total manufacturing cost | 309,000 |
| Direct materials used | 86,000 |
| Manufacturing overhead | ? |

Required: Determine the missing values.

12. Information for the ABC Company for the month of January is as follows:

| | <u>Beginning</u> | <u>Ending</u> |
|---------------------------|------------------|---------------|
| Raw materials inventory | \$8,000 | \$8,700 |
| Work-in-process inventory | 2,100 | 3,200 |
| Finished goods inventory | 5,000 | 5,700 |

| | <u>January Activity</u> |
|-------------------------------------|-------------------------|
| Direct materials purchases | \$18,000 |
| Manufacturing overhead | 15,000 |
| Direct labor | 10,000 |
| Sales | 55,300 |
| Selling and administrative expenses | 6,300 |

Required: Prepare a statement of cost of goods manufactured and an income statement for the month of January.

Solutions to Multiple Choice Questions

1. B
2. C
3. B
4. D
5. C
6. A
7. C
8. A
9. B
10. D

Direct materials used \$100,000
Direct labor 80,000
Total overhead costs 66,000
Total product costs \$246,000

Solution #11

| | |
|-----------------------------------|---------------|
| Beginning raw materials inventory | \$28,000 |
| Direct materials purchases | 72,000 |
| Direct materials used | <u>86,000</u> |
| Ending raw materials inventory | \$14,000 |

| | |
|-----------------------------|------------------|
| Total manufacturing cost | \$309,000 |
| less: Direct materials used | 86,000 |
| Direct labor incurred | <u>112,000</u> |
| Manufacturing overhead | <u>\$111,000</u> |

| | |
|-------------------------------------|----------------|
| Ending work-in-process inventory | \$25,000 |
| Cost of goods manufactured | 307,000 |
| less: Total manufacturing cost | <u>309,000</u> |
| Beginning work-in-process inventory | \$23,000 |

| | |
|------------------------------------|----------|
| Beginning finished goods inventory | \$37,000 |
|------------------------------------|----------|

| | |
|---------------------------------------|---------------|
| Cost of goods manufactured | 307,000 |
| less: Ending finished goods inventory | <u>55,000</u> |
| Cost of goods sold | \$289,000 |

Solution #12

Schedule of Cost of Goods Manufactured

| | |
|--|---------------|
| Beginning raw materials inventory | \$8,000 |
| Direct materials purchases | <u>18,000</u> |
| Raw materials available for use | 26,000 |
| less: Ending raw materials inventory | <u>8,700</u> |
| Direct materials used | 17,300 |
| Direct labor incurred | 10,000 |
| Manufacturing overhead | <u>15,000</u> |
| Total manufacturing cost | 42,300 |
| Beginning work-in-process inventory | <u>2,100</u> |
| | 44,400 |
| less: Ending work-in-process inventory | <u>3,200</u> |
| Cost of goods manufactured | \$41,200 |

Income Statement

| | | |
|---------------------------------------|---------------|---------------|
| Sales | | \$55,300 |
| Cost of Goods Sold: | | |
| Beginning finished goods inventory | \$5,000 | |
| Cost of goods manufactured | <u>41,200</u> | |
| Goods available for sale | 46,200 | |
| less: Ending finished goods inventory | <u>5,700</u> | |
| Cost of goods sold | | <u>40,500</u> |
| Gross Profit | | 14,800 |
| Selling and administrative expenses | | <u>6,300</u> |
| Net Income | | \$8,500 |