

1.award:
2.00 points

Mayer Company allocates overhead on the basis of direct labor hours. It allocates overhead costs of \$6,400 to two different jobs as follows:

Job 1: (10 hours) = \$3,200; Job 2: (10 hours) = \$3,200

The production process for Job 1 was then automated. Now Job 1 requires only two hours of direct labor but four hours of mechanical processing. As a result, total overhead increases to \$8,500. With the change in the production process for Job 1:

- The amount of overhead assigned to Job 2 will increase.
- The amount of overhead assigned to each product will decrease.
- The amount of overhead assigned to Job 2 will decrease.
- The amount of overhead assigned to each product will increase.

Learning Objective: 05-01 Explain how activity-based costing improves accuracy in determining the cost of products and services.

[The following information applies to the questions displayed below.]

Wall Company incurred \$40,000 of fixed cost and \$50,000 of variable cost when 2,000 units of product were made and sold.

rev: 07_27_2012

2.award:
2.00 points

If the company's volume doubles, the cost per unit will:

rev: 07_27_2012

- double as well.
- stay the same.
- increase but will not double.
- decrease.

3.

award:
2.00 points

If the company's volume increases to 2,500 units, the cost per unit will be:

rev: 07_27_2012

- \$36.
→ \$41.
 \$20.
 \$16.

4.

award:
2.00 points

Max bought a ticket to the championship baseball game for \$170. Someone approaches him outside the stadium and offers him \$365 for his ticket. If Max decides to go the game, instead of selling his ticket, how much does it cost Max to go the game?

rev: 05_03_2013_QC_30284

- \$365
 \$195
 \$170
 None of the above.

Learning Objective: 06-01 Identify the characteristics of relevant information.

5.

award:
2.00 points

Traditionally, direct labor hours have been widely used as a base for the allocation of overhead for all of the following reasons **except**:

- in a low technology environment labor is predominately responsible for the production of goods.
 there is a logical link between the usage of direct labor hours and the incurrence of overhead costs.
→ using labor hours as an allocation base assigns an equal amount of overhead to each unit of inventory even when products require differential labor inputs.
 for payroll purposes accurate records are kept of labor hours.

Learning Objective: 11-04 Account for completion and sale of products.

6.

award:
2.00 points

The Daily Grind operates a chain of coffee shops. The company pays rent of \$20,000 per year for each shop. Supplies (napkins, bags and condiments) are purchased as needed. The manager of each shop is paid a salary of \$3,000 per month, and all other employees are paid on an hourly basis. Relative to the number of customers for a shop, the cost of rent is which kind of cost?

- Mixed cost
 Fixed cost
 Variable cost
 Relevant cost

Learning Objective: 02-01 Identify and describe fixed, variable, and mixed cost behavior.

[The following information applies to the questions displayed below.]

Steele Company produces inexpensive camping and outdoor grills. During 2012, Steele Company incurred the following costs:

Rent on manufacturing facility	\$125,000
Office manager's salary	\$75,000
Wages of factory machine operators	\$55,000
Depreciation on manufacturing equipment	\$25,000
Insurance and Property Taxes on selling & administrative offices	\$15,000
Direct Materials purchased and used	\$85,000

7.

award:
2.00 points

Wages paid to factory machine operators in producing the grills should be categorized as:

- a product cost and recorded on the income statement
 a period cost and recorded on the income statement
 a product cost and recorded in the inventory account
 a period cost and recorded in the inventory account

Learning Objective: 01-03 Explain the effects on financial statements of product costs versus general, selling, and administrative costs.

8. award:
2.00 points

Based on the above information, the amount of period costs shown on Steele's 12/31/2012 income statement is:

- \$215,000
→ \$90,000
 \$75,000
 \$15,000

Learning Objective: 01-03 Explain the effects on financial statements of product costs versus general, selling, and administrative costs.

9. award:
2.00 points

Based on the above information, which of the following would not be treated as a product cost:

- rent expense incurred on manufacturing facility
 salaries of factory machine operators
 depreciation on manufacturing equipment
→ office manager's salary

Learning Objective: 01-02 Identify the cost components of a product made by a manufacturing company: the cost of materials; labor; and overhead.

10. award:
2.00 points

Which of the following best describes the impact of undercosting?

- This is a goal of all companies. Undercosting all products allows for larger profit margins.
→ Undercosting some products can lead to overcosting other products which may become overpriced and lose market share.
 Companies will use target pricing to undercost products.
 Undercosting some products will lead to overcosting other products, which is acceptable because it all balances.

Learning Objective: 05-03 Use activity-based costing to calculate costs of products and services.

11. award: 2.00 points

A company that uses a just in time inventory system:

- has finished goods inventory on hand at all times in order to speed up shipments of customer orders.
- may find that having less inventory actually leads to increased customer satisfaction.
- assesses its value chain to create new value-added activities.
- adopts a systematic, problem-solving attitude.

Learning Objective: 01-08 Identify emerging trends in accounting (Appendix A).

12. award: 2.00 points

The Sandusky Company recorded the following costs of quality during the current period:

Downtime	\$2,300
Inspection	1,800
Product design	4,800
Reliability testing upon completion of production	3,300
Restocking and packaging	2,300
Training	3,800
Warranty repairs and replacements	3,300
Total costs of quality	\$21,600

Which choice below represents the correct amount of prevention and appraisal costs?

	Prevention	Appraisal
A)	\$4,800	\$1,800
B)	\$3,800	\$1,800
C)	\$8,600	\$5,100
D)	\$3,800	\$3,300

- Choice A
- Choice B
- Choice C
- Choice D

13. award: 2.00 points

All of the following costs are accumulated in the work in process account **except**:

- direct labor costs.
- selling costs.
- manufacturing overhead costs.
- direct material costs.

Learning Objective: 11-01 Describe the nature and treatment of product cost information for manufacturing and service companies.

14. award: 14.00 points

The following information pertains to Pandey Manufacturing Company for March 2012. Assume actual overhead equaled applied overhead.

March 1	
Inventory balances	
Raw materials	\$123,600
Work in process	119,900
Finished goods	76,600
March 31	
Inventory balances	
Raw materials	\$ 85,800
Work in process	146,300
Finished goods	80,100
During March	
Costs of raw materials purchased	\$119,500
Costs of direct labor	101,600
Costs of manufacturing overhead	61,900
Sales revenues	358,000

Required:

- a. Prepare a schedule of cost of goods manufactured and sold. (Amounts to be deducted should be indicated with minus sign. Omit the "\$" sign in your response.)

Pandey Manufacturing Company
Schedule of Cost of Goods Manufactured and Sold
For March 2012

Beginning raw materials inventory <input type="checkbox"/>	\$	123,600
Purchases <input type="checkbox"/>		119,500
Raw materials available for Use		243,100
Ending raw materials inventory <input type="checkbox"/>		-85,800
Direct raw materials used		157,300
Direct labor <input type="checkbox"/>		101,600
Overhead <input type="checkbox"/>		61,900
Total manufacturing costs		320,800
Beginning WIP inventory <input type="checkbox"/>		119,900
Total WIP inventory		440,700
Ending WIP inventory <input type="checkbox"/>		-146,300
Cost of goods manufactured		294,400
Beginning finished goods inventory <input type="checkbox"/>		76,600
Cost of goods available for sale		371,000
Ending finished goods inventory <input type="checkbox"/>		-80,100
Cost of goods sold		\$ 290,900

- b. Calculate the amount of gross margin on the income statement. (Omit the "\$" sign in your response.)

Gross margin \$ 67,100

Explanation:

b.

Sales revenues	\$ 358,000
Cost of goods sold	(290,900)
Gross margin	\$ 67,100

15.

award:
2.00 points

The Ted Company is considering eliminating the following product line:

	Product C5-X
Sales	\$50,000
Less variable costs:	
Raw materials	30,000
Direct labor	9,000
Contribution margin	\$11,000
Less fixed costs:	
Production costs allocated to products	17,000
Profit (loss)	\$(6,000)

What amount of cost is avoidable if Ted out sources production of this product?

- \$33,000
- \$39,000
- \$56,000
- \$6,000

16.

award:
2.00 points

Burke Company has a break-even of \$600,000 in total sales. Assuming the company sells its product for \$50 per unit, what is its margin of safety in units if sales total \$800,000?

- 12,000 units
- 16,000 units
- 1,000 units
- 4,000 units

17. award: 2.00 points

Select the **incorrect** statement regarding managerial and financial accounting.

- Both managerial and financial accounting use economic and physical data in addition to financial data.
- Financial accounting is more highly regulated than managerial accounting.
- Users of financial accounting information desire greater aggregation than do users of managerial accounting information.
- Timeliness is more important in managerial accounting than in financial accounting.

Learning Objective: 01-01 Distinguish between managerial and financial accounting.

18. award: 2.00 points

Based on the following cost data, what conclusions can you make about Product A and Product B?

Total Cost		
Production:	Product A	Product B
10 units	\$100	?
100 units	\$1,000	?
1,000 units	\$10,000	?
Unit Cost		
Production:	Product A	Product B
10 units	?	\$10,000
100 units	?	\$1,000
1,000 units	?	\$100

- Product A is a fixed cost and Product B is a variable cost.
- Product A is a variable cost and Product B is a fixed cost.
- Product A and Product B are both variable costs.
- Product A and Product B are both mixed costs.

Learning Objective: 02-01 Identify and describe fixed; variable; and mixed cost behavior.

19. award: 2.00 points

For most businesses, quality means:

- the degree to which products or services conform to design specifications.
- absolutely no defects.
- producing the very best.
- none of the above answers are correct.

Learning Objective: 05-04 Identify the components of quality costs.

20. award:
2.00 points

Which of the following statement(s) regarding activity-based costing is(are) true?

- I. Use of activity based costing improves cost tracing by using more cause-and-effect relationship to assign indirect costs to activity centers.
- II. Activity based costing can cause distortion of cost, assigning too much cost to some products and too little to others.
- III. An activity-based system is characterized by multiple cost pools and multiple volume and activity cost drivers.

- I and III
- III only
- II and III
- I and II

Learning Objective: 05-02 Identify cost centers and cost drivers in an activity-based costing system.

21. award:
2.00 points

Acme Company has variable costs equal to 40% of sales. The company is considering a proposal that will increase sales by \$15,000 and total fixed costs by \$9,000. By what amount will net income increase?

- \$3,000
- \$0
- \$6,000
- \$9,000

22. award:
2.00 points

Which of the following costs is **not** considered to be a product cost?

- Freight paid on a purchase of raw materials
- Raw materials costs
- Depreciation of delivery vehicles
- Wages paid to production workers

Learning Objective: 01-02 Identify the cost components of a product made by a manufacturing company: the cost of materials; labor; and overhead.

23. award:
2.00 points

Managing quality costs to achieve the highest level of customer satisfaction is known as:

- strategic management.
- total quality management.
- activity based costing.
- quality costing.

Learning Objective: 05-04 Identify the components of quality costs.

24. award:
2.00 points

Select the response that indicates the correct sequence of product cost flows from production to sale.

- Work in process, finished goods, and cost of goods sold
- Raw materials, finished goods, and cost of goods sold
- Cost of goods sold, finished goods, work in process, raw materials
- Raw materials, work in process, finished goods, and cost of goods sold

Learning Objective: 11-01 Describe the nature and treatment of product cost information for manufacturing and service companies.

[The following information applies to the questions displayed below.]

During its first year of operations, Silver Company paid \$12,385 for direct materials and \$10,600 for production workers' wages. Lease payments and utilities on the production facilities amounted to \$9,600 while general, selling, and administrative expenses totaled \$3,900. The company produced 6,650 units and sold 4,100 units at a price of \$7.40 a unit.

rev: 07_27_2012

25. award:
2.00 points

What is Silver's cost of goods sold for the year?

rev: 07_27_2012

- \$16,576
- \$20,090
- \$32,585
- \$ 26,885

26. award:
2.00 points

What is the amount of gross margin for the first year?

rev: 07_27_2012

- \$12,495
- \$7,355
- \$10,250
- \$ 30,340

27. award:
2.00 points

What is the amount of finished goods inventory on the balance sheet at year-end?

rev: 07_27_2012

- \$6,248
- \$2,550
- \$12,495
- \$10,250

28. award:
2.00 points

What was Silver's net income for the first year in operation?

rev: 07_27_2012

- \$7,355
- \$26,440
- \$6,350
- \$20,740

29. award:
2.00 points

In which of the following industries would a job-order cost system most likely be used?

- Oil refinery
- Small appliances manufacturer
- Beverage manufacturer
- Construction of residential buildings

Learning Objective: 12-01 Distinguish between job-order and process costing systems.

30. award:
2.00 points

A chair manufacturer makes custom chairs using hand tools, wood, glue, and varnish. Which of the following statements is true?

- Wood, glue, and varnish would all be direct materials.
- The concepts of direct and indirect costs are not applicable here.
- The costs of wood and glue would be treated as direct costs.
- Wood would be accounted for as a direct cost, and glue and varnish as indirect costs.

Learning Objective: 04-02 Distinguish direct costs from indirect costs.

31. award:
2.00 points

During its first year of operations, Farmer Company paid \$37,290 for direct materials and \$50,300 in wages for production workers. Lease payments, utility costs, and depreciation on factory equipment totaled \$14,700. General, selling, and administrative expenses were \$20,300. The average cost to produce one unit was \$5.30. How many units were produced during the period?

- 20,357
- 19,300
- 23,130
- None of the above

32. award:
2.00 points

What is the principal reason that direct labor hours is no longer an effective base for allocating indirect costs in many modern manufacturing companies?

- Changes in generally accepted accounting principles
- U.S. labor laws
- Automation
- Workers are not as productive as they were in the past

Learning Objective: 05-01 Explain how activity-based costing improves accuracy in determining the cost of products and services.

33. award:
2.00 points

Susan Mason is the manager of one department in a large store. In this capacity, which of the following kinds of information would she be interested in?

- A. Information that is local, relevant, and timely
- B. Information that is global and pertains to the business as a whole
- C. Information that meets cost-benefit criteria
- Both A and C

Learning Objective: 01-01 Distinguish between managerial and financial accounting.

34. award:
2.00 points

Phoenix Company produces a product that has a selling price of \$24.00 and a variable cost of \$19.00 per unit. The company's fixed costs are \$71,000. What is the break-even point measured in sales dollars? (Do not round intermediate calculations.)

- \$85,200
- \$142,000
- \$269,800
- \$340,800

35. award:
2.00 points

Identify the obstacle(s) in implementing a successful activity-based costing system.

- Gaining the cooperation and support of employees.
- Obtaining accurate cost driver data.
- Condensing a large number of activities down into a manageable number of activity cost pools.
- All of the above answers are correct.

Learning Objective: 05-03 Use activity-based costing to calculate costs of products and services.

36. award:
2.00 points

Which of the following costs is most likely to be directly traceable to a specific department in a retail clothing store?

- The cost of heating and air conditioning.
- The cost of supplies.
- The cost of commissions paid to the sales staff.
- All of the above answers are correct.

Learning Objective: 04-02 Distinguish direct costs from indirect costs.

37. award:
2.00 points

Shed Industries produces two products. The products' identified costs are as follows:

	Product A	Product B
Direct materials	\$28,000	\$23,000
Direct labor	18,000	32,000

The company's overhead costs of \$62,000 are allocated based on labor cost. Assume 12,000 units of product A and 13,000 units of Product B are produced. What amount of production costs would be assigned to Product B? (Do not round your intermediate calculations.)

- \$55,000
 \$94,680
 \$117,000
 None of the above answers are correct.

38. award:
2.00 points

A market research specialist told Peachtree Company that it could expect to sell 640,000 units of its new high-capacity computer disk at a price of \$25. Assuming the company desires a profit margin equal to 15% of sales, what target cost per unit is necessary?

- None of these
 \$25.00
 \$3.75
 \$21.25

Stone Hill Bottling Company pays its production manager a salary of \$7,000 per month. Salespersons are paid strictly on commission, at \$2.50 for each case of product sold.

39. award:
2.00 points

For Stone Hill Bottling Company, the production manager's salary is an example of:

- a variable cost.
 a fixed cost.
 a mixed cost.
 none of these

Learning Objective: 02-01 Identify and describe fixed; variable; and mixed cost behavior.

40. award:
2.00 points

For Stone Hill Bottling Company, the salespersons' commissions are an example of:

- a variable cost.
 a fixed cost.
 a mixed cost.
 none of these

Learning Objective: 02-01 Identify and describe fixed; variable; and mixed cost behavior.

41. award:
2.00 points

Cost allocation involves:

- identifying a cost driver for each cost to be allocated.
 calculating an allocation rate for each cost to be allocated.
 multiplying the allocation rate by the weight of the cost driver.
→ All of the above answers are correct.

Learning Objective: 04-03 Allocate indirect costs to cost objects.

42. award:
2.00 points

Barr Company makes steel and titanium handle bars for bicycles. It requires approximately 1 hour of labor to make one handle bar of either type. During the most recent accounting period, Barr Company made 6,800 steel bars and 3,200 titanium bars. Setup costs amounted to \$44,000. One batch of each type of bar was run each month. If a single company-wide overhead rate based on direct labor hours is used to allocate overhead costs to the two products, the amount of setup cost assigned to the steel bars will be:

- \$29,920.
 \$44,000.
 \$4,400.
 \$14,080.

43. award: **2.00 points**

Martinez Company makes two types of chairs. One of the chairs is a rocking chair. The other is a straight-back chair. Both chairs are made by hand. Martinez Company uses a company-wide overhead rate that is based on direct labor hours to assign overhead costs to the two products. If Martinez automates the production of straight-back chairs and continues to use direct labor hours as a company-wide allocation basis:

- straight back chairs will be overcosted.
- rocking chairs will be undercosted.
- rocking chairs will be overcosted.
- there should be no impact on unit cost.

Learning Objective: 05-02 Identify cost centers and cost drivers in an activity-based costing system.

44. award: **10.00 points**

Kennedy Company produces a product that sells for \$48 per unit and has a variable cost of \$21 per unit. Kennedy incurs annual fixed costs of \$180,900.

Required:

- a. Determine the sales volume in units and dollars required to break even. (Omit the "\$" sign in your response.)

Sales volume in units	6,700
Sales volume in dollars	\$ 321,600

- b. Calculate the break-even point assuming fixed costs increase to \$245,700. (Omit the "\$" sign in your response.)

Break-even units	9,100
Break-even sales	\$ 436,800

Explanation:

N = Number of units to break-even
 Sales – Variable cost – Fixed cost = Profit
 (Sales price × N) – (Variable cost per unit × N) = Fixed cost + Profit
 (Contribution margin per unit × N) = Fixed cost + Profit
 N = (Fixed cost + Profit) ÷ Contribution margin per unit

a.
 N = (\$180,900 + \$0) ÷ (\$48 – \$21) = 6,700 units
 Sales in \$ = \$48 × 6,700 units = \$321,600

b.
 N = (\$245,700 + \$0) ÷ (\$48 – \$21) = 9,100 units
 Sales in \$ = \$48 × 9,100 units = \$436,800