

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

Answer: TRUE

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

Answer: TRUE

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

Answer: TRUE

4) Selling costs are indirect costs.

Answer: FALSE

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

Answer: FALSE

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

Answer: TRUE

7) Product costs are also known as inventoriable costs.

Answer: TRUE

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

Answer: FALSE

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

Answer: TRUE

10) A decrease in production will ordinarily result in a decrease in fixed production costs per

unit.

Answer: FALSE

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

Answer: FALSE

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

Answer: FALSE

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

- A) period costs.
- B) selling expenses.
- C) cost of goods sold.
- D) administrative expenses.

14) 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.

15) 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.

16) Factory overhead is typically a(n):

- A) mixed cost.
- B) fixed cost.
- C) variable cost.
- D) irrelevant cost.

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

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

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

	Cost W	Cost X	Cost Y	Cost Z
A)	Variable	Fixed	mixed	variable
B)	mixed	Fixed	variable	mixed
C)	variable	Fixed	variable	variable
D)	mixed	Fixed	mixed	mixed

A) Choice A

B) Choice B

C) Choice C

D) Choice D

18) The following costs were incurred in May:

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

Prime costs during the month totaled:

A) \$36,000

B) \$119,000

C) \$69,000

D) \$46,000

Answer: D

Explanation: Prime cost = Direct materials + Direct labor
= \$33,000 + \$13,000 = \$46,000

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

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

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

- A) \$17.15
- B) \$11.00
- C) \$14.00
- D) \$12.50**

Answer: D

Explanation:

Direct materials	\$ 6.45
Direct labor	3.30
Variable manufacturing overhead	1.25
Sales commissions	1.00
Variable administrative expense	0.50
Variable cost per unit sold	<u>\$ 12.50</u>

19) Kneeland Corporation has provided the following information:

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

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

- A) \$186,000
- B) \$138,000**
- C) \$162,000
- D) \$150,000

Answer: B
Explanation:

Total variable manufacturing overhead cost (\$1.65 per unit × 10,000 units)	\$ 16,500
Total fixed manufacturing overhead cost	<u>121,500</u>
Total manufacturing overhead cost (a)	<u>\$ 138,000</u>

20) Shelp Corporation has provided the following information:

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

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

- A) \$33,000
- B) \$9,000
- C) \$40,500
- D) \$49,500

Answer: D
Explanation:

Sales commissions	\$ 0.50
Variable administrative expense	<u>0.50</u>
Variable selling and administrative expense per unit	<u>\$ 1.00</u>

Total variable selling and administrative expense ($\$1.00 \text{ per unit} \times 9,000 \text{ units sold}$)	\$ 9,000
Total fixed selling and administrative expense	<u>40,500</u>
Total period (nonmanufacturing) cost	<u>\$ 49,500</u>

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

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

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

- A) \$17.15
- B) \$11.00
- C) \$14.00
- D) \$12.50

Answer: D

Explanation:

Direct materials	\$ 6.45
Direct labor	3.30
Variable manufacturing overhead	1.25
Sales commissions	1.00
Variable administrative expense	0.50
Variable cost per unit sold	<u>\$ 12.50</u>

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

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

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

- A) \$16,800
- B) \$14,000
- C) \$12,600
- D) \$11,200

Answer: D

Explanation:

Fixed manufacturing overhead per unit	\$ 2.80
Number of units produced*	4,000
Total fixed manufacturing overhead cost	<u>\$ 11,200</u>

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

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

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

- A) \$9.65
- B) \$6.50
- C) \$15.30
- D) \$12.35

Answer: D

Explanation:

Selling price per unit		\$23.50
Direct materials	\$4.95	
Direct labor	3.25	
Variable manufacturing overhead	1.45	
Sales commissions	1.00	
Variable administrative expense	<u>0.50</u>	
Variable cost per unit sold		<u>11.15</u>
Contribution margin per unit		<u>12.35</u>

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

- A) \$86,000
- B) \$82,000
- C) \$84,000
- D) \$122,000

Answer: B

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

$$\$84,000 = \$20,000 + \text{Purchases} - \$18,000$$

$$\text{Purchases} = \$84,000 - \$20,000 + \$18,000 = \$82,000$$

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

- A) \$91,000
- B) \$63,000
- C) \$65,000
- D) \$61,000

Answer: D

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

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

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

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

- A) \$56,200
- B) \$45,800

- C) \$60,200
D) \$10,400

Answer: A
Explanation:

Direct materials	\$ 6.55
Direct labor	3.50
Variable manufacturing overhead	<u>1.40</u>
Variable manufacturing cost per unit	<u>\$ 11.45</u>
 Total variable manufacturing cost (\$11.45 per unit × 4,000 units produced)	 \$ 45,800
Total fixed manufacturing overhead cost (\$2.60 per unit × 4,000 units produced)	<u>10,400</u>
Total product (manufacturing) cost	<u>\$ 56,200</u>

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

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

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

- A) \$4,200
B) \$10,400
C) \$14,600
D) \$12,000

Answer: C
Explanation:

Total variable manufacturing overhead cost (\$1.40 per unit × 3,000 units)	\$ 4,200
Total fixed manufacturing overhead cost (\$2.60 per unit × 4,000 units*)	<u>10,400</u>

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.

28) Delongis Corporation, a merchandising company, reported the following results for June:

Number of units sold	1,200 units
Selling price per unit	\$ 221 per unit
Unit cost of goods sold	\$ 97 per unit
Variable selling expense per unit	\$ 12 per unit
Total fixed selling expense	\$ 7,300
Variable administrative expense per unit	\$ 8 per unit
Total fixed administrative expense	\$ 15,300

Cost of goods sold is a variable cost in this company.

The gross margin for June is:

A) \$242,600

B) \$148,800

C) \$124,800

D) \$102,200

Answer: B

Explanation:

Sales (1,200 units × \$221 per unit)	\$ 265,200
Cost of goods sold (1,200 units × \$97 per unit)	<u>116,400</u>
Gross margin	<u>\$ 148,800</u>