

Introduction to Managerial Accounting

True / False Questions

1. Financial accounting information is generally used exclusively by internal parties such as managers.

True False

2. Financial accounting information is prepared according to generally accepted accounting principles.

True False

3. Managerial accounting information includes such items as budgets, performance evaluations, and cost reports.

True False

4. Financial accounting information is reported for the company as a whole.

True False

5. Investors, creditors and regulators are the primary users of managerial accounting information.

True False

6. The planning function is the arranging of the necessary resources to carry out the plan.

True False

7. The control function is comparing actual with budgeted results and taking corrective action when needed.

True False

8. The directing/leading function provides motivation to achieve results.

True False

9. Managers of small, private corporations use managerial accounting information whereas managers of large, public corporations use financial accounting information.

True False

10. Since hospitals, universities, and charitable organizations do not exist strictly to earn profit for shareholders, managerial accounting information is not vital to their operations.

True False

11. The Sarbanes-Oxley Act of 2002 places full responsibility on the board of directors for the accuracy of the reporting system.

True False

12. Properly applied, ethics provide a clear right or wrong answer to the business situations facing accountants and managers.

True False

13. The Sarbanes-Oxley Act of 2002 focuses on three factors that affect the accounting reporting environment: ethics, fraud, and managers.

True False

14. Although there are numerous ways to categorize costs, each individual cost will only be classified in one particular way.

True False

15. Costs can be sorted or categorized in a number of ways including relevant or irrelevant costs.

True False

16. Out-of-pocket costs involve an actual outlay of cash.

True False

17. Opportunity cost is the cost of not doing something.

True False

18. Whether a cost is treated as direct or indirect depends on whether tracing the cost is either possible or feasible.

True False

19. An indirect cost can be readily traced to a cost object while a direct cost is traced only to manufacturing costs.

True False

20. Variable costs are always direct costs.

True False

21. Fixed costs stay the same, on a per-unit basis, as activity level changes.

True False

22. Fixed costs stay the same, in total, as activity level changes.

True False

23. Prime costs include direct materials, direct labor, and manufacturing overhead.

True False

24. Conversion costs are the costs to convert direct materials into the finished product.

True False

25. A manufacturing firm reports only manufacturing costs.

True False

26. All manufacturing costs are treated as product costs.

True False

27. All manufacturing costs are inventoriable costs.

True False

28. A cost that will occur in the future and differs between various alternatives under consideration is a relevant cost.

True False

Multiple Choice Questions

29. What is the primary goal of accounting?

- A. To set long-term goals and objectives.
- B. To arrange for the necessary resources to achieve a plan.
- C. To provide information for decision making.
- D. To motivate others to work towards a plan's success.

30. Accounting is primarily intended to facilitate

- A. starting a business.
- B. decision making.
- C. ethics investigations.
- D. cost tracing.

31. Which of the following is **not** a characteristic of financial accounting?

- A. Financial reports are prepared according to GAAP.
- B. Information is used by external parties.
- C. Information is subjective, relevant and future-oriented.
- D. Reports are prepared periodically.

32. Which of the following is **not** a characteristic of financial accounting?

- A. Information is reported at the decision making level.
- B. Information is used by external parties.
- C. Information is objective, reliable and historical.
- D. Reports are prepared periodically.

33. Which of the following is **not** a characteristic of financial accounting?

- A. Financial reports are prepared according to GAAP.
- B. Information is used primarily by internal parties.
- C. Information is objective, reliable and historical.
- D. Reports are prepared periodically.

34. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by internal parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D. Reports are prepared according to GAAP.

35. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by external parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D. Information is reported at the decision making level.

36. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by internal parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D. Information is reported for the company as a whole.

37. Which of the following types of reports is more characteristic of managerial accounting than financial accounting?

- A. An internal report used by management.
- B. An external report used by investors.
- C. A report prepared according to GAAP.
- D. A report prepared periodically (monthly, quarterly, annually).

38. Which of the following types of organizations purchases raw materials from suppliers and uses them to create a finished product?

- A. Manufacturing firms
- B. Merchandising companies
- C. Service companies
- D. Retailers

39. Hair salons and law firms are which of the following type of organization?

- A. Retailers
- B. Service companies
- C. Manufacturing firms
- D. Merchandising companies

40. Which of the following types of organizations sells goods to the general public?

- A. Service companies
- B. Manufacturing firms
- C. Merchandising companies
- D. Retailers

41. Which of the following functions of management involves taking actions to implement the plan?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

42. Which of the following functions of management involves comparing actual results with budgeted results?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

43. Which of the following functions of management involves setting short and long-term objectives and the tactics to achieve them?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

44. Which of the following functions of management involves arranging the necessary resources to carry out the plan?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

45. Which of the following functions of management involves providing motivation to achieve results?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

46. Which of the following functions of management involves taking corrective action if needed?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

47. Which of the following functions of management involves providing feedback for future plans?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

48. Which of the following is the correct sequencing of the managerial process?

- A. Planning - Organizing - Control - Directing/Leading
- B. Planning - Directing/Leading - Organizing - Control
- C. Planning - Organizing - Directing/Leading - Control
- D. Organizing - Directing/Leading - Planning - Control

49. Which of the following describes the Planning function of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

50. Which of the following describes the Control function of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

51. Which of the following describes the Organizing function of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action if needed
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

52. Which of the following describes one of the Directing/Leading functions of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

53. Which of the following does the term "ethics" **not** refer to?

- A. The standards of conduct for judging fair from unfair
- B. The standards of conduct for judging right from wrong
- C. The standards of conduct for judging opportunity from incentives
- D. The standards of conduct for judging honest from dishonest

54. Which of the following is **not** one of the factors affecting the accounting reporting environment focused on by the Sarbanes-Oxley Act?

- A. Line of business
- B. Opportunity
- C. Character
- D. Incentives

55. Which of the following is a requirement under the Sarbanes-Oxley Act?

- A. Financial statements must be audited by a Big Four accounting firm.
- B. Management must issue a report that indicates whether the financial statements are free of error.
- C. Management must conduct a review of the company's internal control system.
- D. Background checks must be performed on all employees.

56. Which of the following is **not** a provision of the Sarbanes-Oxley Act?

- A. Executives can avoid penalties for fraud by declaring personal bankruptcy.
- B. Stiffer penalties for fraud in terms of monetary fines and jail time.
- C. Public companies must adopt a code of ethics for senior financial officers.
- D. Management must issue a report that indicates whether internal controls are effective at preventing errors and fraud.

57. Which of the following is **not** true about how the Sarbanes-Oxley Act counteracts incentives for committing fraud?

- A. It provides for stiffer monetary penalties.
- B. It increases the maximum jail sentence for fraudulent reporting.
- C. It removes legal protection from whistleblowers.
- D. It provides that violators must repay any money obtained via fraud plus pay fines.

58. The Sarbanes-Oxley Act places responsibility for the accuracy of the reporting system on

- A. Accounting managers.
- B. Marketing managers.
- C. Top executives.
- D. All managers.

59. Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to reduce opportunities for error and fraud?

- A. Internal control report from management
- B. Code of ethics
- C. Stronger oversight by directors
- D. Internal control audit by external auditors

60. Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to encourage good character?

- A. Anonymous tip lines
- B. Whistle-blower protection
- C. Code of ethics
- D. Stiffer fines and prison terms

61. Which of the following changes introduced by the Sarbanes-Oxley Act is intended to counteract incentives for fraud?

- A. Stronger oversight by directors
- B. Code of ethics
- C. Stiffer fines and prison terms
- D. Anonymous tip lines

62. Which of the following is **not** true about how the Sarbanes-Oxley Act emphasizes the importance of the character of managers and employees?

- A. It requires that ethics be embedded in the organizational culture.
- B. It requires that audit committees establish anonymous tip lines.
- C. It provides protection for whistle-blowers.
- D. It requires that public companies adopt a code of ethics for senior financial officers.

63. Which of the following is **not** one of the categories used to sort costs in managerial accounting?

- A. Relevant or irrelevant
- B. Variable or fixed
- C. Out-of-pocket or opportunity
- D. Direct or indirect

64. Which of the following statements concerning costs is **incorrect**?

- A. Costs are treated differently depending on how the information will be used.
- B. Out-of-pocket costs include the costs associated with not taking a particular course of action.
- C. Any single cost can be classified in more than one way.
- D. Costs can be categorized on the basis of relevant or irrelevant costs.

65. The cost of **not** doing something is a(n)

- A. out-of-pocket cost.
- B. opportunity cost.
- C. direct cost.
- D. cost object.

66. An actual outlay of cash is a(n)

- A. out-of-pocket cost.
- B. opportunity cost.
- C. direct cost.
- D. cost object.

67. An opportunity cost is

- A. the foregone benefit of the path not taken.
- B. an actual outlay of cash.
- C. the initial investment required to pursue an opportunity.
- D. a cost that cannot be traced to a specific cost object.

68. An out-of-pocket cost involves which of the following?

- A. Choosing to do one thing instead of another.
- B. Tracing the cost directly to a cost object.
- C. An actual outlay of cash.
- D. Determining how the cost changes with a change in activity level.

69. To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an opportunity cost of mowing lawns?

- A. Cash paid for gas to run the lawnmower.
- B. The time spent mowing the lawns.
- C. The wages he could have earned working at the grocery store.
- D. Depreciation on the lawnmower.

70. To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an out-of-pocket cost of mowing lawns?

- A. The use of his father's truck to get to job sites.
- B. The wages he could have earned working at the grocery store.
- C. The time spent mowing the lawns.
- D. Cash paid for gas to run the lawnmower.

71. Which of the following cannot be an out-of-pocket cost?

- A. A direct cost.
- B. An opportunity cost.
- C. A variable cost.
- D. A period cost.

72. Costs that can be traced to a specific cost object are

- A. opportunity costs.
- B. direct costs.
- C. indirect costs.
- D. irrelevant costs.

73. Costs that are not worth the effort to trace to a specific cost object are

- A. opportunity costs.
- B. direct costs.
- C. indirect costs.
- D. irrelevant costs.

74. A direct cost is one which

- A. involves an actual outlay of cash for a specific cost object.
- B. can be traced to a specific cost object.
- C. cannot be traced to a specific cost object.
- D. is not worth the effort of tracing to a specific cost object.

75. What determines the difference between a direct and an indirect cost?

- A. Whether it changes when activity levels change.
- B. Whether it is relevant to a particular decision.
- C. Whether it can be traced to a specific cost object.
- D. Whether it is related to manufacturing or nonmanufacturing activities.

76. Which of the following is an indirect cost of manufacturing a table made of wood and glass, for a firm that manufactures furniture?

- A. The cost of the wood in the table.
- B. The cost of the labor used to assemble the table.
- C. The cost of the glass in the table.
- D. The cost of rent on the factory where the table is manufactured.

77. Which of the following is a direct cost of manufacturing a table made of wood and glass, for a firm that manufactures furniture?

- A. The cost of the wood in the table.
- B. The cost of rent on the factory where the table is manufactured.
- C. The salary of the supervisor who oversees all production for the firm.
- D. Depreciation on the tools used to manufacture the table.

78. A cost object is

- A. an item for which managers are trying to determine the cost.
- B. an item to which managers must directly trace costs.
- C. an item to which it is not worth the effort of tracing costs.
- D. an item for sale by a business.

79. Indirect costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B. costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant no matter the activity level.

80. Variable costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B. costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant no matter the activity level.

81. Variable costs are

- A. costs that stay the same, in total, regardless of activity level.
- B. costs that vary inversely, per unit, with the number of units produced.
- C. costs that vary inversely, in total, with the number of units produced.
- D. costs that change, in total, in direct proportion to changes in activity levels.

82. A cost is \$50,000 when 25,000 units are produced, and \$100,000 when 50,000 units are produced. This is an example of a(n)
- A. fixed cost.
 - B. direct cost.
 - C. variable cost.
 - D. indirect cost.
83. A cost is \$50,000 when 25,000 units are produced, and \$50,000 when 50,000 units are produced. This is an example of a(n)
- A. fixed cost.
 - B. direct cost.
 - C. variable cost.
 - D. indirect cost.
84. What determines the difference between a variable and a fixed cost?
- A. Whether the total cost changes when activity levels change.
 - B. Whether the total cost is relevant to a particular decision.
 - C. Whether the total cost can be traced to a specific cost object.
 - D. Whether the total cost is related to manufacturing or nonmanufacturing activities.

85. Which of the following is an example of a variable cost for a manufacturing firm?

- A. The cost of rent on the factory.
- B. The cost of factory supervision.
- C. The cost of raw materials.
- D. The cost of depreciation on equipment.

86. Fixed costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B. costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant, in total, no matter the activity level.

87. A fixed cost

- A. goes up in total when activity increases.
- B. goes up per unit when activity increases.
- C. goes down in total when activity increases.
- D. goes down per unit when activity increases.

88. A relevant cost is a cost that

- A. has the potential to influence a decision.
- B. changes in direct proportion to changes in activity level.
- C. can be traced to a specific cost object.
- D. is used for control purposes.

89. An irrelevant cost

- A. is also called a differential cost.
- B. must differ between decision alternatives.
- C. must be incurred in the future rather than in the past.
- D. will not influence a decision.

90. For a cost to be relevant, it must

- A. differ between decision alternatives.
- B. have already been incurred.
- C. not influence a decision.
- D. not be a differential cost.

91. A cost that has already been incurred is called a(n) _____ cost.

- A. indirect
- B. sunk
- C. relevant
- D. opportunity

92. You are to receive five gold coins from your great uncle as an incentive to study hard. The coins were originally purchased in 1982. Your great uncle will deliver the coins the week after finals (assuming your grades are "acceptable"). The amount your great uncle paid for the coins is a(n)

- A. opportunity cost.
- B. indirect cost.
- C. sunk cost.
- D. overhead cost.

93. For a cost to be relevant, it must meet which of the following criteria?

- A. It must not differ between the decision alternatives and it must be incurred in the future rather than in the past.
- B. It must differ between the decision alternatives and it must be incurred in the future rather than in the past.
- C. It must not differ between the decision alternatives and it must have occurred in the past rather than in the future.
- D. It must differ between the decision alternatives and it must have occurred in the past rather than in the future.

94. For a cost to be relevant, it must be

- A. a differential cost and a sunk cost.
- B. a differential cost, but not a sunk cost.
- C. a sunk cost, but not a differential cost.
- D. neither a differential cost nor a sunk cost.

95. Which of the following costs is **not** relevant to the decision whether to replace an old computer with a new one?

- A. The cost of the new computer.
- B. The cost of the old computer.
- C. The cost of a service plan on the new computer.
- D. The cost to repair the old computer if a new computer is not purchased.

96. Manufacturing costs are generally classified into which of the following categories?

- A. relevant costs and irrelevant costs
- B. direct materials, direct labor, and manufacturing overhead
- C. prime costs and conversion costs
- D. conversion costs, marketing costs, and administrative costs

97. Prime costs are defined as

- A. Manufacturing costs plus non-manufacturing costs.
- B. Direct labor plus direct materials.
- C. Variable costs equal fixed costs.
- D. Manufacturing overhead plus direct labor.

98. Which of the following is **not** a manufacturing cost?

- A. Raw materials cost.
- B. Marketing cost.
- C. Direct labor cost.
- D. Manufacturing overhead cost.

99. Nonmanufacturing costs are generally classified into what two groups?

- A. Conversion costs and prime costs.
- B. Direct materials and direct labor.
- C. Marketing costs and administrative costs.
- D. Direct labor and manufacturing overhead.

100. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What are Robin's prime costs?

- A. \$60,800
- B. \$56,000
- C. \$75,200
- D. \$65,600

101. Conversion costs can be defined as

- A. Manufacturing costs plus non-manufacturing costs.
- B. Direct labor plus direct materials.
- C. Variable costs plus fixed costs.
- D. Manufacturing costs minus direct materials.

102. Manufacturing costs are

- A. always relevant.
- B. always fixed.
- C. the costs incurred to produce a final product.
- D. split into prime costs and conversion costs.

103. Prime costs are the same as

- A. Manufacturing costs minus non-manufacturing costs.
- B. Manufacturing costs minus manufacturing overhead.
- C. Manufacturing costs minus fixed costs.
- D. Manufacturing costs minus direct materials.

104. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What is Robin's total manufacturing cost?

- A. \$115,200
- B. \$81,600
- C. \$33,600
- D. \$60,800

105. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What is Robin's total manufacturing overhead?

- A. \$14,400
- B. \$28,800
- C. \$20,800
- D. \$33,600

106. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What are Robin's conversion costs?

- A. \$70,400
- B. \$60,800
- C. \$91,200
- D. \$57,600

107. GAAP reporting rules require that all manufacturing costs be treated as

- A. period costs.
- B. product costs.
- C. value-added costs.
- D. relevant costs.

108. Product costs are sometimes called

- A. relevant costs.
- B. sunk costs.
- C. differential costs.
- D. inventoriable costs.

109. Which of the following is true about product and period costs?

- A. Product costs are usually manufacturing costs, and period costs are usually nonmanufacturing costs.
- B. Product costs are usually nonmanufacturing costs, and period costs are usually manufacturing costs.
- C. Both product and period costs are usually manufacturing costs.
- D. Both product and period costs are usually nonmanufacturing costs.

110. Product costs are

- A. expensed on the income statement when incurred.
- B. treated as an asset and depreciated.
- C. inventoried until the units are sold.
- D. considered current liabilities until paid.

111. When are period costs counted as inventory?

- A. Before products are sold.
- B. After products are sold.
- C. After products are completed, but before they are sold.
- D. Never.

112. What determines the difference between a product cost and a period cost?

- A. Whether the cost changes when activity levels change.
- B. Whether the cost is relevant to a particular decision.
- C. Whether the cost can be traced to a specific cost object.
- D. When the cost will be matched against revenue on the income statement.

113. Product costs are reported

- A. only on the balance sheet.
- B. only on the income statement.
- C. on the balance sheet before goods are sold, and on the income statement after goods are sold.
- D. on the income statement before goods are sold, and on the balance sheet after goods are sold.

Essay Questions

114. Stetson Manufacturing builds custom wooden cabinets. Classify the following items as to a) what category of product costs and b) whether the item is a prime or conversion cost.

	Product Costs			Prime Cost	Conversion Cost
	Direct Materials	Direct Labor	Mfg Overhead		
Cost of hardware (slides, handles, etc.)					
Cost of wood					
Depreciation on production equipment					
Factory property taxes					
Factory rent					
Glue					
Production supervisor salary					
Utilities for factory					
Wages for maintenance workers					
Wages of assembly workers					
Wages of finishing workers					

115. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$13,600	\$23,000	\$4,600	??	\$14,000	??
B	??	??	\$6,000	\$3,000	\$10,500	??
C	\$23,000	\$41,000	\$7,000	??	??	??
D	??	\$23,550	\$4,200	\$9,750	??	\$27,750
E	??	??	??	\$6,300	\$9,300	\$17,400

116. Quail Company builds snowboards. Quail Company has reported the following costs for the previous year. Assume no production inventories.

Cost of fiberglass (raw material)	\$119,000
Factory rent	\$67,200
Advertising	\$175,000
Utilities for factory	\$25,200
Wages of assembly workers	\$126,000
Production supervisor salary	\$63,000
Sales manager salary	\$58,800
Factory property taxes	\$16,800
Depreciation on production equipment	\$35,000
Cost of bindings (raw material)	\$35,000
Screws	\$1,680
Wages of snowboard painters	\$105,000
Wages for maintenance workers	\$53,200

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

117. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$27,200	\$46,000	\$9,200	??	\$28,000	??
B	??	??	\$12,000	\$6,000	\$21,000	??
C	\$46,000	\$82,000	\$14,000	??	??	??
D	??	\$47,100	\$8,400	\$19,500	??	\$55,500
E	??	??	??	\$12,600	\$18,600	\$34,800

118. Mariposa Manufacturing builds custom wooden cabinets. Mariposa Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$70,000
Cost of hardware (slides, handles, etc)	\$34,000
Cost of wood	\$117,000
Depreciation on production equipment	\$63,000
Factory property taxes	\$17,300
Factory rent	\$76,000
Glue	\$3,800
Production supervisor salary	\$40,700
Sales manager salary	\$41,600
Utilities for factory	\$23,900
Wages for maintenance workers	\$31,800
Wages of assembly workers	\$91,400
Wages of finishing workers	\$77,300

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

119. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$40,800	\$69,000	\$13,800	??	\$42,000	??
B	\$27,000	??	??	\$9,000	\$31,500	??
C	\$69,000	\$123,000	\$21,000	??	??	??
D	??	\$70,650	\$12,600	\$29,250	??	\$83,250

120. Alameda Manufacturing manufactures a variety of wooden picture frames using recycled wood from old barns. Alameda Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$50,000
Cost of hardware (hangers, decorations, etc)	\$86,000
Cost of wood	\$122,000
Depreciation on production equipment	\$33,000
Factory property taxes	\$16,000
Factory rent	\$48,000
Glue	\$3,100
Production supervisor salary	\$41,000
Sales manager salary	\$84,000
Utilities for factory	\$26,600
Wages for maintenance workers	\$34,000
Wages of assembly workers	\$88,000
Wages of finishing workers	\$74,000

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

121. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$23,800	\$40,250	\$8,050	??	\$24,500	??
B	??	??	\$10,500	\$5,250	\$18,375	??
C	??	\$82,425	\$14,700	\$34,125	??	\$97,125
D	??	??	??	\$11,025	\$16,275	\$30,450

122. Willow Manufacturing manufactures custom table tops. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect production labor						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

123. Pinnacle Manufacturing manufactures custom wheel covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Administrative Salaries						
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect materials						
Indirect production labor						
Lease on President's vehicle						
President's salary						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

124. Elektra Enterprises manufactures custom boat covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Utilities for factory						
Utilities for corporate office						
Sales manager salary						
Production wages: Finishing						
Production wages: Assembly						
Production supervisor salary						
President's salary						
Lease on President's vehicle						
Indirect production labor						
Indirect materials						
Factory rent						
Factory insurance						
Direct material purchases						
Depreciation on production equipment						
Depreciation on office equipment						
Commissions on sales						
Advertising						
Administrative Salaries						

125. Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items.

Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)	\$7,000
Salespersons' salaries	\$52,000
Advertising	\$29,000
Drycleaning	\$24,000
Sales commissions on tuxedo rentals	\$15,000
Store rent	\$24,000
Store utilities	\$6,800
Store window displays	\$5,900
Depreciation on office equipment	\$16,000
Insurance	\$8,500
President's salary	\$62,000

Calculate each of the following, where the cost object is tuxedo rentals:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

126. Salon de Beauty, a local hair salon, incurred the following costs last month.

Salon rent	\$3,600
Salon utilities (electric and water)	\$890
Hairstylists' salaries	\$10,000
Hairstylists' commissions (a percentage of sales)	\$2,400
Depreciation on fixtures and equipment	\$780
Shampoo and conditioner (only a small amount is used on each customer)	\$500
Insurance	\$1,650
Advertising	\$1,200
Store manager's salary	\$2,800
Hair dye and perm kits (each dye job or perm uses one kit)	\$390

Calculate each of the following, where the cost object is customers served:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

127. Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items.

Assembly labor wages	\$21,000
Wood	\$17,600
Production supervisor's salary	\$41,000
Advertising	\$9,000
Factory rent	\$19,000
Depreciation on factory equipment	\$8,500
Metal	\$26,000
Wood polish used to finish the wood xylophones	\$900
Factory utilities (dependent on hours)	\$2,800
Paint	\$1,900
Salary of product designer	\$18,500
Depreciation on office equipment	\$2,000
Insurance premiums	\$1,800
President's salary	\$60,000
Glue	\$100

Calculate each of the following, where the cost object is the xylophones manufactured by the company:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

128. Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the houses built by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Wages paid to construction crew				
Wood				
Production supervisor's salary				
Billboard advertising the company				
Rent on office space				
Depreciation on tools used at construction sites				
Sheet rock				
Machine purchased to cut a special kind of tile requested by one customer – cannot be re-used				
Gas for the company truck, used to haul supplies to construction sites				
Paint				
Fees paid to electrical contractor, who charges a set amount per house				
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)				
Insurance premiums				
President's salary				
Bricks				

129. Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is tuxedo rentals.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)				
Salespersons' salaries				
Advertising				
Drycleaning				
Sales commissions on tuxedo rentals				
Store rent				
Store utilities				
Store window displays				
Depreciation on office equipment				
Insurance				
President's salary				

130. Salon de Beauty, a local hair salon, incurred the following costs last month. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is customers served.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Salon rent				
Salon utilities (electric and water)				
Hairstylists' salaries				
Hairstylists' commissions (a percentage of sales)				
Depreciation on fixtures and equipment				
Shampoo and conditioner (only a small amount is used on each customer)				
Insurance				
Advertising				
Store manager's salary				
Hair dye and perm kits (each dye job or perm uses one kit)				

131. Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the xylophones manufactured by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Assembly labor wages				
Wood				
Production supervisor's salary				
Advertising				
Factory rent				
Depreciation on factory equipment				
Metal				
Wood polish used to finish the wood xylophones				
Factory utilities (dependent on hours)				
Paint				
Salary of product designer				
Depreciation on office equipment				
Insurance premiums				
President's salary				
Glue				

132. Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items.

Wages paid to construction crew	\$105,000
Wood	\$176,000
Production supervisor's salary	\$52,000
Billboard advertising the company	\$9,000
Rent on office space	\$12,000
Depreciation on tools used at construction sites	\$32,500
Sheet rock	\$84,000
Machine purchased to cut a special kind of tile requested by one customer – cannot be re-used	\$8,300
Gas for the company truck, used to haul supplies to construction sites	\$2,800
Paint	\$9,600
Fees paid to electrical contractor, who charges a set amount per house	\$12,500
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)	\$10,000
Insurance premiums	\$13,800
President's salary	\$101,000
Bricks	\$89,000

Calculate each of the following, where the cost object is the houses built by the company:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

133. Cactus Cookies incurred the following costs this month to manufacture 1,000 jumbo chocolate chip cookies.

Chocolate chips	\$75.00
Flour	\$22.00
Butter	\$48.50
Sugar	\$30.00
Other ingredients	\$27.00
Labor wages	\$300.00
Rent on manufacturing space	\$250.00
Utilities (paid at a fixed monthly rate)	\$52.00
Depreciation on kitchen equipment	\$88.00

Calculate each of the following:

- a. The total variable cost this month
- b. The total fixed cost this month
- c. The variable cost per cookie this month
- d. The fixed cost per cookie this month
- e. The total variable cost if Cactus Cookies had manufactured 2,000 cookies this month
- f. The total fixed cost if Cactus Cookies had manufactured 2,000 cookies this month
- g. The variable cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month
- h. The fixed cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month

Chapter 01 Introduction to Managerial Accounting **Answer Key**

True / False Questions

1. Financial accounting information is generally used exclusively by internal parties such as managers.

FALSE

Financial accounting information is used by external parties; managerial accounting information is used by internal business owners and manager.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

2. Financial accounting information is prepared according to generally accepted accounting principles.

TRUE

External financial statements are required to be prepared according to GAAP.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

3. Managerial accounting information includes such items as budgets, performance evaluations, and cost reports.

TRUE

Managerial accounting is used by internal business owners and managers, who need internal information such as budgets, performance evaluations, and cost reports.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

4. Financial accounting information is reported for the company as a whole.

TRUE

Financial accounting information is provided at the company-wide level.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

5. Investors, creditors and regulators are the primary users of managerial accounting information.

FALSE

Managerial accounting information is used by internal business owners and managers.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

6. The planning function is the arranging of the necessary resources to carry out the plan.

FALSE

Planning involves setting long-term goals and objectives, along with the short-term tactics necessary to achieve them.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

7. The control function is comparing actual with budgeted results and taking corrective action when needed.

TRUE

This is the definition of the control function.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

8. The directing/leading function provides motivation to achieve results.

TRUE

Directing/leading involves putting the plan into action, and motivating others to work toward the plan's success.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

9. Managers of small, private corporations use managerial accounting information whereas managers of large, public corporations use financial accounting information.

FALSE

Managerial accounting information is used by managers in all types of organizations: large and small, public and private, profit and nonprofit.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Types of organizations

10. Since hospitals, universities, and charitable organizations do not exist strictly to earn profit for shareholders, managerial accounting information is not vital to their operations.

FALSE

Managerial accounting information is vital to nonprofit organizations, including hospitals, universities, and charitable organizations. Although these organizations do not exist strictly to earn profit for shareholders, their managers still need managerial accounting information to prepare budgets, manage resources, and make strategic and operational decisions.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Types of organizations

11. The Sarbanes-Oxley Act of 2002 places full responsibility on the board of directors for the accuracy of the reporting system.

FALSE

SOX places more responsibility on all managers (not just accountants) for the accuracy of the reporting system. SOX also places additional responsibilities on the boards of directors and external auditors to reduce the opportunity for errors and fraud.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

12. Properly applied, ethics provide a clear right or wrong answer to the business situations facing accountants and managers.

FALSE

Ethics refers to the standards of conduct for judging right from wrong, honest from dishonest, and fair from unfair.

AACSB: Ethics

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

13. The Sarbanes-Oxley Act of 2002 focuses on three factors that affect the accounting reporting environment: ethics, fraud, and managers.

FALSE

The Sarbanes-Oxley Act of 2002 focuses on three factors that affect the accounting reporting environment: opportunity, incentives, and character.

AACSB: Ethics

AICPA BB: Legal

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

14. Although there are numerous ways to categorize costs, each individual cost will only be classified in one particular way.

FALSE

A single cost can be classified in more than one way, depending on how the information will be used.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

15. Costs can be sorted or categorized in a number of ways including relevant or irrelevant costs.

TRUE

One of the ways that costs can be sorted or categorized is by whether they are relevant or irrelevant.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

16. Out-of-pocket costs involve an actual outlay of cash.

TRUE

Out-of-pocket costs are those paid for items purchased, and involve an actual outlay of cash.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

17. Opportunity cost is the cost of not doing something.

TRUE

An opportunity cost is the foregone benefit of the path not taken - the cost of not doing something.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

18. Whether a cost is treated as direct or indirect depends on whether tracing the cost is either possible or feasible.

TRUE

Direct costs can be traced directly to a specific cost object, while indirect costs cannot be traced to a specific cost object or are not worth the effort of tracing.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

19. An indirect cost can be readily traced to a cost object while a direct cost is traced only to manufacturing costs.

FALSE

An indirect cost cannot be readily traced to a cost object. A direct cost can be traced to a specific cost object. It does not necessarily involve manufacturing costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

20. Variable costs are always direct costs.

FALSE

Variable costs change, in total, in direct proportion to changes in activity levels. They are not always direct costs, which can be traced to a specific cost object.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

21. Fixed costs stay the same, on a per-unit basis, as activity level changes.

FALSE

Fixed costs stay the same, in total, as activity level changes.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

22. Fixed costs stay the same, in total, as activity level changes.

TRUE

This is the definition of a fixed cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

23. Prime costs include direct materials, direct labor, and manufacturing overhead.

FALSE

Taken together, direct materials and direct labor are referred to as prime cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

24. Conversion costs are the costs to convert direct materials into the finished product.

TRUE

Direct labor and manufacturing overhead are referred to as conversion cost - that is, the total cost required to convert direct materials into the finished product.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

25. A manufacturing firm reports only manufacturing costs.

FALSE

A manufacturing firm reports both manufacturing and nonmanufacturing costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

26. All manufacturing costs are treated as product costs.

TRUE

GAAP requires that all manufacturing costs be treated as product costs, or costs that are assigned to the product as it is being manufactured.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

27. All manufacturing costs are inventoriable costs.

TRUE

Manufacturing costs are product costs that are assigned to the product as it is being manufactured. Product costs are also called inventoriable costs because they are counted as inventory until the product is finally sold.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

28. A cost that will occur in the future and differs between various alternatives under consideration is a relevant cost.

TRUE

For a cost to be relevant, it must occur in the future and differ between the various alternatives the manager is considering.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

Multiple Choice Questions

29. What is the primary goal of accounting?
- A. To set long-term goals and objectives.
 - B. To arrange for the necessary resources to achieve a plan.
 - C.** To provide information for decision making.
 - D. To motivate others to work towards a plan's success.

The primary goal of accounting is to provide information for decision making.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

30. Accounting is primarily intended to facilitate
- A. starting a business.
 - B.** decision making.
 - C. ethics investigations.
 - D. cost tracing.

The primary goal of accounting is to provide information for decision making.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

31. Which of the following is **not** a characteristic of financial accounting?

- A. Financial reports are prepared according to GAAP.
- B. Information is used by external parties.
- C.** Information is subjective, relevant and future-oriented.
- D. Reports are prepared periodically.

Managerial, not financial, accounting information is subjective, relevant, and future-oriented.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

32. Which of the following is **not** a characteristic of financial accounting?

- A.** Information is reported at the decision making level.
- B. Information is used by external parties.
- C. Information is objective, reliable and historical.
- D. Reports are prepared periodically.

Managerial, not financial, accounting information is reported at the decision making level.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

33. Which of the following is **not** a characteristic of financial accounting?

- A. Financial reports are prepared according to GAAP.
- B.** Information is used primarily by internal parties.
- C. Information is objective, reliable and historical.
- D. Reports are prepared periodically.

The primary users of managerial, not financial, accounting information, are internal parties.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

34. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by internal parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D.** Reports are prepared according to GAAP.

Financial, not managerial, accounting information is prepared according to GAAP.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

35. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by external parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D. Information is reported at the decision making level.

Financial, not managerial, accounting information is used by external parties such as investors, creditors, and regulators.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

36. Which of the following is **not** a characteristic of managerial accounting?

- A. Information is used by internal parties.
- B. Information is subjective, relevant, future-oriented.
- C. Reports are prepared as needed.
- D. Information is reported for the company as a whole.

Financial, not managerial, accounting information is reported for the company as a whole.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

37. Which of the following types of reports is more characteristic of managerial accounting than financial accounting?

- A.** An internal report used by management.
- B. An external report used by investors.
- C. A report prepared according to GAAP.
- D. A report prepared periodically (monthly, quarterly, annually).

Managerial accounting information is used by internal business owners and managers, so an internal report used by management is more characteristic of managerial accounting than financial accounting.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Topic: Comparison of financial and managerial accounting

38. Which of the following types of organizations purchases raw materials from suppliers and uses them to create a finished product?

- A.** Manufacturing firms
- B. Merchandising companies
- C. Service companies
- D. Retailers

Manufacturing firms purchase raw materials from suppliers and use them to create a finished product.

AACSB: Reflective Thinking

AICPA BB: Industry

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Types of organizations

39. Hair salons and law firms are which of the following type of organization?

- A. Retailers
- B.** Service companies
- C. Manufacturing firms
- D. Merchandising companies

Service companies provide a service to customers or clients and include hair salons and law firms.

AACSB: Reflective Thinking

AICPA BB: Industry

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Types of organizations

40. Which of the following types of organizations sells goods to the general public?

- A. Service companies
- B. Manufacturing firms
- C. Merchandising companies
- D. Retailers

Merchandising companies sell the goods that manufacturing firms produce and include wholesalers and retailers. Wholesalers are merchandisers that sell exclusively to other businesses, retailers are merchandisers who sell to the general public.

AACSB: Reflective Thinking

AICPA BB: Industry

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Types of organizations

41. Which of the following functions of management involves taking actions to implement the plan?

- A. Planning
- B. Organizing
- C. Directing/leading**
- D. Control

Directing/leading involves putting the plan into action, and motivating others to work toward the plan's success.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

42. Which of the following functions of management involves comparing actual results with budgeted results?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control**

Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

43. Which of the following functions of management involves setting short and long-term objectives and the tactics to achieve them?

- A. Planning
- B. Organizing
- C. Directing/leading
- D. Control

Planning involves setting long-term goals and objectives, along with the short-term tactics necessary to achieve them.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

44. Which of the following functions of management involves arranging the necessary resources to carry out the plan?

- A. Planning
- B. Organizing**
- C. Directing/leading
- D. Control

Organizing involves arranging for the necessary resources needed to achieve the plan.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

45. Which of the following functions of management involves providing motivation to achieve results?

- A. Planning
- B. Organizing
- C. Directing/leading**
- D. Control

Directing/leading involves putting the plan into action, and motivating others to work toward the plan's success.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

46. Which of the following functions of management involves taking corrective action if needed?

- A. Planning
- B. Organizing
- C. Directing/leading
- D.** Control

Control involves comparing actual results to planned results, and taking corrective action if needed.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

47. Which of the following functions of management involves providing feedback for future plans?

- A. Planning
- B. Organizing
- C. Directing/leading
- D.** Control

Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met, providing feedback for future plans.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

48. Which of the following is the correct sequencing of the managerial process?

- A. Planning - Organizing - Control - Directing/Leading
- B. Planning - Directing/Leading - Organizing - Control
- C.** Planning - Organizing - Directing/Leading - Control
- D. Organizing - Directing/Leading - Planning - Control

Planning leads to organizing, then directing/leading, then control; then, the loop begins again.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key

49. Which of the following describes the Planning function of management?

- A.** Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

Planning involves setting long-term goals and objectives, along with the short-term tactics necessary to achieve them.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

50. Which of the following describes the Control function of management?

- A. Setting short and long-term objectives
- B.** Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met, and taking corrective action if needed.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

51. Which of the following describes the Organizing function of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action if needed
- C. Taking actions to implement the plan
- D.** Arranging the necessary resources to carry out the plan

Organizing involves making sure the company has the necessary resources to achieve the plan.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

52. Which of the following describes one of the Directing/Leading functions of management?

- A. Setting short and long-term objectives
- B. Comparing actual to budgeted results and taking corrective action
- C. Taking actions to implement the plan
- D. Arranging the necessary resources to carry out the plan

Directing/Leading involves putting the plan into action, and motivating others to work toward the plan's success.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Topic: Functions of management

53. Which of the following does the term "ethics" **not** refer to?

- A. The standards of conduct for judging fair from unfair
- B. The standards of conduct for judging right from wrong
- C. The standards of conduct for judging opportunity from incentives
- D. The standards of conduct for judging honest from dishonest

Ethics refers to the standards of conduct for judging right from wrong, honest from dishonest, and fair from unfair.

AACSB: Ethics

AICPA BB: Critical Thinking

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

54. Which of the following is **not** one of the factors affecting the accounting reporting environment focused on by the Sarbanes-Oxley Act?

- A. Line of business
- B. Opportunity
- C. Character
- D. Incentives

The Sarbanes-Oxley Act focuses on reducing the opportunity for error and fraud, counteracting the incentive to commit fraud, and emphasizing the importance of the character of managers and employees.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

55. Which of the following is a requirement under the Sarbanes-Oxley Act?
- A. Financial statements must be audited by a Big Four accounting firm.
 - B. Management must issue a report that indicates whether the financial statements are free of error.
 - C. Management must conduct a review of the company's internal control system.
 - D. Background checks must be performed on all employees.

The Sarbanes-Oxley Act requires that management conduct a review of the company's internal control system.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

56. Which of the following is **not** a provision of the Sarbanes-Oxley Act?
- A. Executives can avoid penalties for fraud by declaring personal bankruptcy.
 - B. Stiffer penalties for fraud in terms of monetary fines and jail time.
 - C. Public companies must adopt a code of ethics for senior financial officers.
 - D. Management must issue a report that indicates whether internal controls are effective at preventing errors and fraud.

Executives cannot avoid monetary penalties by declaring personal bankruptcy.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

57. Which of the following is **not** true about how the Sarbanes-Oxley Act counteracts incentives for committing fraud?
- A. It provides for stiffer monetary penalties.
 - B. It increases the maximum jail sentence for fraudulent reporting.
 - C. It removes legal protection from whistleblowers.
 - D. It provides that violators must repay any money obtained via fraud plus pay fines.

The Sarbanes-Oxley Act gives whistleblowers legal protection from retaliation by those charged with fraud; it does not remove such protection from them.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

58. The Sarbanes-Oxley Act places responsibility for the accuracy of the reporting system on
- A. Accounting managers.
 - B. Marketing managers.
 - C. Top executives.
 - D.** All managers.

The Sarbanes-Oxley Act places more responsibility on all managers (not just accountants) for the accuracy of the reporting system.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

59. Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to reduce opportunities for error and fraud?
- A. Internal control report from management
 - B.** Code of ethics
 - C. Stronger oversight by directors
 - D. Internal control audit by external auditors

The Sarbanes-Oxley Act requires adoption of a code of ethics as part of its attempt to encourage good character, not to reduce opportunities for error and fraud.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

60. Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to encourage good character?

- A. Anonymous tip lines
- B. Whistle-blower protection
- C. Code of ethics
- D.** Stiffer fines and prison terms

As part of the act's attempt to reduce opportunities for error and fraud, it provides stiffer penalties in terms of monetary fines and jail time.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

61. Which of the following changes introduced by the Sarbanes-Oxley Act is intended to counteract incentives for fraud?

- A. Stronger oversight by directors
- B. Code of ethics
- C. Stiffer fines and prison terms**
- D. Anonymous tip lines

The Sarbanes-Oxley Act attempts to counteract the incentive to commit fraud by providing much stiffer penalties in terms of monetary fines and jail time.

AACSB: Ethics

AICPA BB: Legal

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

62. Which of the following is **not** true about how the Sarbanes-Oxley Act emphasizes the importance of the character of managers and employees?

- A. It requires that ethics be embedded in the organizational culture.**
- B. It requires that audit committees establish anonymous tip lines.
- C. It provides protection for whistle-blowers.
- D. It requires that public companies adopt a code of ethics for senior financial officers.

The Sarbanes-Oxley Act does not require that ethics be embedded in the organizational culture.

AACSB: Ethics

AICPA BB: Legal

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the role of ethics in managerial decision making and the effects of the Sarbanes-Oxley Act.

Topic: Ethics and internal reporting

63. Which of the following is **not** one of the categories used to sort costs in managerial accounting?

A. Relevant or irrelevant

B. Variable or fixed

C. Out-of-pocket or opportunity

D. Direct or indirect

In managerial accounting costs are sorted into different categories including direct or indirect, variable or fixed, and relevant or irrelevant. An out-of-pocket cost involves an actual cash outlay, whereas an opportunity cost is the cost of not doing something - a foregone benefit.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

64. Which of the following statements concerning costs is **incorrect**?

- A. Costs are treated differently depending on how the information will be used.
- B.** Out-of-pocket costs include the costs associated with not taking a particular course of action.
- C. Any single cost can be classified in more than one way.
- D. Costs can be categorized on the basis of relevant or irrelevant costs.

Costs are treated differently depending on how the information will be used, so any single cost can be classified in more than one way, depending on how the information will be used. An opportunity cost is the cost associated with not taking a particular course of action, it's the forgone benefit of a particular course of action. One of the ways costs are categorized is based on relevant or irrelevant.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

65. The cost of **not** doing something is a(n)

- A. out-of-pocket cost.
- B.** opportunity cost.
- C. direct cost.
- D. cost object.

This is the definition of an opportunity cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

66. An actual outlay of cash is a(n)

- A.** out-of-pocket cost.
- B. opportunity cost.
- C. direct cost.
- D. cost object.

This is the definition of an out-of-pocket cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or

indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

67. An opportunity cost is

- A. the foregone benefit of the path not taken.
- B. an actual outlay of cash.
- C. the initial investment required to pursue an opportunity.
- D. a cost that cannot be traced to a specific cost object.

This is the definition of an opportunity cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

68. An out-of-pocket cost involves which of the following?

- A. Choosing to do one thing instead of another.
- B. Tracing the cost directly to a cost object.
- C. An actual outlay of cash.
- D. Determining how the cost changes with a change in activity level.

This is the definition of an out-of-pocket cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

69. To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an opportunity cost of mowing lawns?
- A. Cash paid for gas to run the lawnmower.
 - B. The time spent mowing the lawns.
 - C. The wages he could have earned working at the grocery store.
 - D. Depreciation on the lawnmower.

An opportunity cost is the foregone benefit of the path not taken; in this case, the wages Joe could have earned working at the grocery store.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

70. To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an out-of-pocket cost of mowing lawns?

- A. The use of his father's truck to get to job sites.
- B. The wages he could have earned working at the grocery store.
- C. The time spent mowing the lawns.
- D.** Cash paid for gas to run the lawnmower.

An out-of-pocket cost involves an actual outlay of cash. Thus, the cash Joe pays for gas to run the lawnmower is an out-of-pocket cost.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

71. Which of the following cannot be an out-of-pocket cost?

- A. A direct cost.
- B.** An opportunity cost.
- C. A variable cost.
- D. A period cost.

Unlike an out-of-pocket cost which involves an outlay of cash, an opportunity cost is the cost of not doing something.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Cost terminology

72. Costs that can be traced to a specific cost object are

- A. opportunity costs.
- B.** direct costs.
- C. indirect costs.
- D. irrelevant costs.

Costs that can be traced directly to a specific cost object, and are worth the effort of tracing, are called direct costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

73. Costs that are not worth the effort to trace to a specific cost object are

- A. opportunity costs.
- B. direct costs.
- C. indirect costs.**
- D. irrelevant costs.

Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

74. A direct cost is one which

- A. involves an actual outlay of cash for a specific cost object.
- B. can be traced to a specific cost object.**
- C. cannot be traced to a specific cost object.
- D. is not worth the effort of tracing to a specific cost object.

Costs that can be traced directly to a specific cost object are direct costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

75. What determines the difference between a direct and an indirect cost?

- A. Whether it changes when activity levels change.
- B. Whether it is relevant to a particular decision.
- C. Whether it can be traced to a specific cost object.
- D. Whether it is related to manufacturing or nonmanufacturing activities.

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

76. Which of the following is an indirect cost of manufacturing a table made of wood and glass, for a firm that manufactures furniture?

- A. The cost of the wood in the table.
- B. The cost of the labor used to assemble the table.
- C. The cost of the glass in the table.
- D. The cost of rent on the factory where the table is manufactured.

Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs, such as the cost of rent on the factory.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

77. Which of the following is a direct cost of manufacturing a table made of wood and glass, for a firm that manufactures furniture?

- A. The cost of the wood in the table.
- B. The cost of rent on the factory where the table is manufactured.
- C. The salary of the supervisor who oversees all production for the firm.
- D. Depreciation on the tools used to manufacture the table.

Costs that can be traced directly to a specific cost object are direct costs, such as the cost of the wood in the table.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

78. A cost object is

- A. an item for which managers are trying to determine the cost.
- B. an item to which managers must directly trace costs.
- C. an item to which it is not worth the effort of tracing costs.
- D. an item for sale by a business.

The item for which managers are trying to determine cost is the cost object.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

79. Indirect costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B. costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant no matter the activity level.

Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

80. Variable costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B.** costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant no matter the activity level.

Variable costs are those that change, in total, in direct proportion to changes in activity levels.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

81. Variable costs are

- A. costs that stay the same, in total, regardless of activity level.
- B. costs that vary inversely, per unit, with the number of units produced.
- C. costs that vary inversely, in total, with the number of units produced.
- D.** costs that change, in total, in direct proportion to changes in activity levels.

Variable costs are those that change, in total, in direct proportion to changes in activity levels.

Examples include the cost of direct materials and direct labor.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

82. A cost is \$50,000 when 25,000 units are produced, and \$100,000 when 50,000 units are produced. This is an example of a(n)

- A. fixed cost.
- B. direct cost.
- C. variable cost.**
- D. indirect cost.

Variable costs are those that change, in total, in direct proportion to changes in activity levels. This cost increases in total as production increases, at a rate of \$2 for every unit produced.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

83. A cost is \$50,000 when 25,000 units are produced, and \$50,000 when 50,000 units are produced. This is an example of a(n)

- A. fixed cost.
- B. direct cost.
- C. variable cost.
- D. indirect cost.

Fixed costs are those that stay the same, in total, regardless of activity level. This cost remains at \$50,000, in total, even when production increases.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

84. What determines the difference between a variable and a fixed cost?

- A. Whether the total cost changes when activity levels change.
- B. Whether the total cost is relevant to a particular decision.
- C. Whether the total cost can be traced to a specific cost object.
- D. Whether the total cost is related to manufacturing or nonmanufacturing activities.

Variable costs are those that change, in total, in direct proportion to changes in activity level.

Fixed costs are those that stay the same, in total, regardless of activity level.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

85. Which of the following is an example of a variable cost for a manufacturing firm?

- A. The cost of rent on the factory.
- B. The cost of factory supervision.
- C.** The cost of raw materials.
- D. The cost of depreciation on equipment.

Variable costs are those that change, in total, in direct proportion to changes in activity levels, such as raw materials.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

86. Fixed costs are

- A. costs that are not worth the effort to trace to a specific cost object.
- B. costs that change, in total, in direct proportion to changes in activity levels.
- C. always irrelevant.
- D. costs that remain constant, in total, no matter the activity level.

Fixed costs are those that stay the same, in total, regardless of activity level, at least within some range of activity.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

87. A fixed cost

- A. goes up in total when activity increases.
- B. goes up per unit when activity increases.
- C. goes down in total when activity increases.
- D. goes down per unit when activity increases.

Unit fixed costs will vary inversely with the number of units produced.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs

88. A relevant cost is a cost that

- A. has the potential to influence a decision.
- B. changes in direct proportion to changes in activity level.
- C. can be traced to a specific cost object.
- D. is used for control purposes.

A relevant cost is one that has the potential to influence a decision.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

89. An irrelevant cost

- A. is also called a differential cost.
- B. must differ between decision alternatives.
- C. must be incurred in the future rather than in the past.
- D. will not influence a decision.

A relevant cost is one that has the potential to influence a decision; an irrelevant cost is one that will not influence a decision.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

90. For a cost to be relevant, it must

- A. differ between decision alternatives.
- B. have already been incurred.
- C. not influence a decision.
- D. not be a differential cost.

A relevant cost must differ between the decision alternatives, and it must be incurred in the future.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

91. A cost that has already been incurred is called a(n) _____ cost.

- A. indirect
- B. sunk**
- C. relevant
- D. opportunity

A sunk cost is one that has already been incurred.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

92. You are to receive five gold coins from your great uncle as an incentive to study hard. The coins were originally purchased in 1982. Your great uncle will deliver the coins the week after finals (assuming your grades are "acceptable"). The amount your great uncle paid for the coins is a(n)

- A. opportunity cost.
- B. indirect cost.
- C. sunk cost.
- D. overhead cost.

A sunk cost is one that has already been incurred.

AACSB: Analytic

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

93. For a cost to be relevant, it must meet which of the following criteria?

- A. It must not differ between the decision alternatives and it must be incurred in the future rather than in the past.
- B.** It must differ between the decision alternatives and it must be incurred in the future rather than in the past.
- C. It must not differ between the decision alternatives and it must have occurred in the past rather than in the future.
- D. It must differ between the decision alternatives and it must have occurred in the past rather than in the future.

A relevant cost must differ between the decision alternatives, and it must be incurred in the future.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

94. For a cost to be relevant, it must be
- A. a differential cost and a sunk cost.
 - B.** a differential cost, but not a sunk cost.
 - C. a sunk cost, but not a differential cost.
 - D. neither a differential cost nor a sunk cost.

A relevant cost must differ between the decision alternatives (a differential cost), and it must be incurred in the future rather than in the past. Sunk costs occur in the past.

AACSB: Reflective Thinking

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

95. Which of the following costs is **not** relevant to the decision whether to replace an old computer with a new one?
- A. The cost of the new computer.
 - B.** The cost of the old computer.
 - C. The cost of a service plan on the new computer.
 - D. The cost to repair the old computer if a new computer is not purchased.

The cost of the old computer is a sunk cost.

AACSB: Analytic

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Relevant versus irrelevant costs

96. Manufacturing costs are generally classified into which of the following categories?

- A. relevant costs and irrelevant costs
- B. direct materials, direct labor, and manufacturing overhead**
- C. prime costs and conversion costs
- D. conversion costs, marketing costs, and administrative costs

Manufacturing costs are generally classified into one of three categories: direct materials, direct labor, and manufacturing overhead.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

97. Prime costs are defined as

- A. Manufacturing costs plus non-manufacturing costs.
- B.** Direct labor plus direct materials.
- C. Variable costs equal fixed costs.
- D. Manufacturing overhead plus direct labor.

Taken together, direct materials and direct labor are referred to as prime cost because they represent the primary costs that can be traced to the end product.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

98. Which of the following is **not** a manufacturing cost?

- A. Raw materials cost.
- B.** Marketing cost.
- C. Direct labor cost.
- D. Manufacturing overhead cost.

Marketing cost is a cost associated with selling the product, and is therefore a nonmanufacturing cost.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

99. Nonmanufacturing costs are generally classified into what two groups?

- A. Conversion costs and prime costs.
- B. Direct materials and direct labor.
- C. Marketing costs and administrative costs.**
- D. Direct labor and manufacturing overhead.

Nonmanufacturing costs are generally classified into two groups: marketing or selling costs, and administrative costs.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

100. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What are Robin's prime costs?

- A. \$60,800
- B. \$56,000
- C. \$75,200
- D. \$65,600

Direct materials and direct labor are prime costs. The total of these two costs is \$60,800.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

101. Conversion costs can be defined as

- A. Manufacturing costs plus non-manufacturing costs.
- B. Direct labor plus direct materials.
- C. Variable costs plus fixed costs.
- D. Manufacturing costs minus direct materials.

Manufacturing costs consist of direct materials, direct labor, and manufacturing overhead.

Manufacturing costs minus direct materials leaves direct labor and manufacturing overhead, which are the conversion costs.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

102. Manufacturing costs are

- A. always relevant.
- B. always fixed.
- C. the costs incurred to produce a final product.
- D. split into prime costs and conversion costs.

Manufacturing costs include all costs incurred to produce the physical product.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

103. Prime costs are the same as

- A. Manufacturing costs minus non-manufacturing costs.
- B.** Manufacturing costs minus manufacturing overhead.
- C. Manufacturing costs minus fixed costs.
- D. Manufacturing costs minus direct materials.

Manufacturing costs consist of direct materials, direct labor, and manufacturing overhead.

Manufacturing costs minus manufacturing overhead leaves direct materials and direct labor, the prime costs.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

104. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What is Robin's total manufacturing cost?

- A. \$115,200
- B. \$81,600**
- C. \$33,600
- D. \$60,800

Manufacturing costs include the cost of direct materials, direct labor, indirect labor, the production manager's salary, and the factory lease, which total \$81,600.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

105. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What is Robin's total manufacturing overhead?

- A. \$14,400
- B. \$28,800
- C. \$20,800**
- D. \$33,600

Manufacturing overhead includes the costs of indirect labor, the production manager's salary, and the factory lease, which total \$20,800.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

106. Robin Company has the following balances for the current month:

Direct materials used	\$24,000
Direct labor	\$36,800
Sales salaries	\$19,200
Indirect labor	\$4,800
Production manager's salary	\$9,600
Marketing costs	\$14,400
Factory lease	\$6,400

What are Robin's conversion costs?

- A. \$70,400
- B. \$60,800
- C. \$91,200
- D. \$57,600

Direct labor and manufacturing overhead are conversion costs, which include the indirect labor, the production manager's salary, the factory lease, and direct labor. These items total \$57,600.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

107. GAAP reporting rules require that all manufacturing costs be treated as

- A. period costs.
- B. product costs.**
- C. value-added costs.
- D. relevant costs.

For external reporting, GAAP requires that all manufacturing costs be treated as product costs, or costs that are attached to the product as it is being produced.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

108. Product costs are sometimes called

- A. relevant costs.
- B. sunk costs.
- C. differential costs.
- D. inventoriable costs.**

Product costs are sometimes called inventoriable costs because they are initially counted as part of the cost of inventory.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

109. Which of the following is true about product and period costs?

- A.** Product costs are usually manufacturing costs, and period costs are usually nonmanufacturing costs.
- B. Product costs are usually nonmanufacturing costs, and period costs are usually manufacturing costs.
- C. Both product and period costs are usually manufacturing costs.
- D. Both product and period costs are usually nonmanufacturing costs.

Manufacturing costs are attached to the product as it is being produced. Nonmanufacturing costs are expensed during the period in which they are incurred.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

110. Product costs are

- A. expensed on the income statement when incurred.
- B. treated as an asset and depreciated.
- C. inventoried until the units are sold.
- D. considered current liabilities until paid.

Product costs are counted as part of the inventory until the product is sold.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

111. When are period costs counted as inventory?

- A. Before products are sold.
- B. After products are sold.
- C. After products are completed, but before they are sold.
- D. Never.

Period costs are never counted as inventory. Rather, they are expensed during the period they are incurred.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

112. What determines the difference between a product cost and a period cost?

- A. Whether the cost changes when activity levels change.
- B. Whether the cost is relevant to a particular decision.
- C. Whether the cost can be traced to a specific cost object.
- D. When the cost will be matched against revenue on the income statement.

Product costs are counted as inventory until the product is sold, while period costs are expensed during the period they are incurred.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

113. Product costs are reported

- A. only on the balance sheet.
- B. only on the income statement.
- C.** on the balance sheet before goods are sold, and on the income statement after goods are sold.
- D. on the income statement before goods are sold, and on the balance sheet after goods are sold.

Product costs are counted as inventory (an asset) until the product is sold, at which point they are reported as Cost of Goods Sold on the income statement.

AACSB: Reflective Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Product versus period costs

Essay Questions

114. Stetson Manufacturing builds custom wooden cabinets. Classify the following items as to a) what category of product costs and b) whether the item is a prime or conversion cost.

	Product Costs			Prime Cost	Conversion Cost
	Direct Materials	Direct Labor	Mfg Overhead		
Cost of hardware (slides, handles, etc.)					
Cost of wood					
Depreciation on production equipment					
Factory property taxes					
Factory rent					
Glue					
Production supervisor salary					
Utilities for factory					
Wages for maintenance workers					
Wages of assembly workers					
Wages of finishing workers					

	Product Costs			Prime Cost	Conversion Cost
	Direct Materials	Direct Labor	Mfg Overhead		
Cost of hardware (slides, handles, etc.)	X			X	
Cost of wood	X			X	
Depreciation on production equipment			X		X
Factory property taxes			X		X
Factory rent			X		X
Glue			X		X
Production supervisor salary			X		X
Utilities for factory			X		X
Wages for maintenance workers			X		X
Wages of assembly workers		X		X	X
Wages of finishing workers		X		X	X

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

115. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$13,600	\$23,000	\$4,600	??	\$14,000	??
B	??	??	\$6,000	\$3,000	\$10,500	??
C	\$23,000	\$41,000	\$7,000	??	??	??
D	??	\$23,550	\$4,200	\$9,750	??	\$27,750
E	??	??	??	\$6,300	\$9,300	\$17,400

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$13,600	\$23,000	\$4,600	\$9,000	\$14,000	\$27,600
B	\$9,000	\$13,500	\$6,000	\$3,000	\$10,500	\$19,500
C	\$23,000	\$41,000	\$7,000	\$16,000	\$25,000	\$48,000
D	13,950	\$23,550	\$4,200	\$9,750	\$13,800	\$27,750
E	\$8,100	\$15,600	\$1,800	\$6,300	\$9,300	\$17,400

Feedback: Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

116. Quail Company builds snowboards. Quail Company has reported the following costs for the previous year. Assume no production inventories.

Cost of fiberglass (raw material)	\$119,000
Factory rent	\$67,200
Advertising	\$175,000
Utilities for factory	\$25,200
Wages of assembly workers	\$126,000
Production supervisor salary	\$63,000
Sales manager salary	\$58,800
Factory property taxes	\$16,800
Depreciation on production equipment	\$35,000
Cost of bindings (raw material)	\$35,000
Screws	\$1,680
Wages of snowboard painters	\$105,000
Wages for maintenance workers	\$53,200

Compute the following:

- Direct material costs
- Direct labor cost
- Manufacturing overhead
- Total manufacturing cost
- Prime cost
- Conversion cost
- Total period cost

a. $\$154,000 = \$119,000 + \$35,000$

b. $\$231,000 = \$126,000 + \$105,000$

c. $\$262,080 = \$67,200 + \$25,200 + \$63,000 + \$16,800 + \$35,000 + \$1,680 + \$53,200$

d. $\$647,080 = \$154,000 + \$231,000 + \$262,080$

e. $\$385,000 = \$154,000 + \$231,000$

f. $\$493,080 = \$231,000 + \$262,080$

g. $\$233,800 = \$175,000 + \$58,800$

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

117. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$27,200	\$46,000	\$9,200	??	\$28,000	??
B	??	??	\$12,000	\$6,000	\$21,000	??
C	\$46,000	\$82,000	\$14,000	??	??	??
D	??	\$47,100	\$8,400	\$19,500	??	\$55,500
E	??	??	??	\$12,600	\$18,600	\$34,800

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$27,200	\$46,000	\$9,200	\$18,000	\$28,000	\$55,200
B	\$18,000	\$27,000	\$12,000	\$6,000	\$21,000	\$39,000
C	\$46,000	\$82,000	\$14,000	\$32,000	\$50,000	\$96,000
D	\$27,900	\$47,100	\$8,400	\$19,500	\$27,600	\$55,500
E	\$16,200	\$31,200	\$3,600	\$12,600	\$18,600	\$34,800

Feedback: Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

118. Mariposa Manufacturing builds custom wooden cabinets. Mariposa Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$70,000
Cost of hardware (slides, handles, etc)	\$34,000
Cost of wood	\$117,000
Depreciation on production equipment	\$63,000
Factory property taxes	\$17,300
Factory rent	\$76,000
Glue	\$3,800
Production supervisor salary	\$40,700
Sales manager salary	\$41,600
Utilities for factory	\$23,900
Wages for maintenance workers	\$31,800
Wages of assembly workers	\$91,400
Wages of finishing workers	\$77,300

Compute the following:

- Direct material costs
- Direct labor cost
- Manufacturing overhead
- Total manufacturing cost
- Prime cost
- Conversion cost
- Total period cost

a. $\$151,000 = \$34,000 + \$117,000$

b. $\$168,700 = \$91,400 + \$77,300$

c. $\$256,500 = \$63,000 + \$17,300 + \$76,000 + \$3,800 + \$40,700 + \$23,900 + \$31,800$

d. $\$576,200 = \$151,000 + \$168,700 + \$256,500$

e. $\$319,700 = \$151,000 + \$168,700$

f. $\$425,200 = \$168,700 + \$256,500$

g. $\$111,600 = \$70,000 + \$41,600$

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

119. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$40,800	\$69,000	\$13,800	??	\$42,000	??
B	\$27,000	??	??	\$9,000	\$31,500	??
C	\$69,000	\$123,000	\$21,000	??	??	??
D	??	\$70,650	\$12,600	\$29,250	??	\$83,250

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$40,800	\$69,000	\$13,800	\$27,000	\$42,000	\$82,800
B	\$27,000	\$40,500	\$18,000	\$9,000	\$31,500	\$58,500
C	\$69,000	\$123,000	\$21,000	\$48,000	\$75,000	\$144,000
D	\$41,850	\$70,650	\$12,600	\$29,250	\$41,400	\$83,250

Feedback: Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

120. Alameda Manufacturing manufactures a variety of wooden picture frames using recycled wood from old barns. Alameda Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$50,000
Cost of hardware (hangers, decorations, etc)	\$86,000
Cost of wood	\$122,000
Depreciation on production equipment	\$33,000
Factory property taxes	\$16,000
Factory rent	\$48,000
Glue	\$3,100
Production supervisor salary	\$41,000
Sales manager salary	\$84,000
Utilities for factory	\$26,600
Wages for maintenance workers	\$34,000
Wages of assembly workers	\$88,000
Wages of finishing workers	\$74,000

Compute the following:

- Direct material costs
- Direct labor cost
- Manufacturing overhead
- Total manufacturing cost
- Prime cost
- Conversion cost
- Total period cost

a. $\$208,000 = \$86,000 + \$122,000$

b. $\$162,000 = \$88,000 + \$74,000$

c. $\$201,700 = \$33,000 + \$16,000 + \$48,000 + \$3,100 + \$41,000 + \$26,600 + \$34,000$

d. $\$571,700 = \$208,000 + \$162,000 + \$201,700$

e. $\$370,000 = \$208,000 + \$162,000$

f. $\$363,700 = \$162,000 + \$201,700$

g. $\$134,000 = \$50,000 + \$84,000$

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

121. For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$23,800	\$40,250	\$8,050	??	\$24,500	??
B	??	??	\$10,500	\$5,250	\$18,375	??
C	??	\$82,425	\$14,700	\$34,125	??	\$97,125
D	??	??	??	\$11,025	\$16,275	\$30,450

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$23,800	\$40,250	\$8,050	\$15,750	\$24,500	\$48,300
B	\$15,750	\$23,625	\$10,500	\$5,250	\$18,375	\$34,125
C	\$48,825	\$82,425	\$14,700	\$34,125	\$48,300	\$97,125
D	\$14,175	\$27,300	\$3,150	\$11,025	\$16,275	\$30,450

Feedback: Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

122. Willow Manufacturing manufactures custom table tops. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect production labor						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Advertising						X
Depreciation on production equipment			X		X	
Direct material purchases	X			X		
Factory insurance			X		X	
Factory rent			X		X	
Indirect production labor			X		X	
Production supervisor salary			X		X	
Production wages: Assembly		X		X	X	
Production wages: Finishing		X		X	X	
Sales commissions						X
Sales manager salary						X
Utilities for factory			X		X	

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct

materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

123. Pinnacle Manufacturing manufactures custom wheel covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Administrative Salaries						
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect materials						
Indirect production labor						
Lease on President's vehicle						
President's salary						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Administrative Salaries						X
Advertising						X
Depreciation on production equipment			X		X	
Direct material purchases	X			X		
Factory insurance			X		X	
Factory rent			X		X	
Indirect materials			X		X	
Indirect production labor			X		X	
Lease on President's vehicle						X
President's salary						X
Production supervisor salary			X		X	
Production wages: Assembly		X		X	X	
Production wages: Finishing		X		X	X	
Sales commissions						X
Sales manager salary						X
Utilities for factory			X		X	

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

124. Elektra Enterprises manufactures custom boat covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Utilities for factory						
Utilities for corporate office						
Sales manager salary						
Production wages: Finishing						
Production wages: Assembly						
Production supervisor salary						
President's salary						
Lease on President's vehicle						
Indirect production labor						
Indirect materials						
Factory rent						
Factory insurance						
Direct material purchases						
Depreciation on production equipment						
Depreciation on office equipment						
Commissions on sales						
Advertising						
Administrative Salaries						

	Product Costs			Prime Cost	Conversion Cost	Period Cost
	Direct Materials	Direct Labor	Mfg Overhead			
Utilities for factory			X		X	
Utilities for corporate office						X
Sales manager salary						X
Production wages: Finishing		X		X	X	
Production wages: Assembly		X		X	X	
Production supervisor salary			X		X	
President's salary						X
Lease on President's vehicle						X
Indirect production labor			X		X	
Indirect materials			X		X	
Factory rent			X		X	
Factory insurance			X		X	
Direct material purchases	X			X		
Depreciation on production equipment			X		X	
Depreciation on office equipment						X
Commissions on sales						X
Advertising						X
Administrative Salaries						X

Feedback: Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Manufacturing versus nonmanufacturing costs

Topic: Product versus period costs

125. Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items.

Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)	\$7,000
Salespersons' salaries	\$52,000
Advertising	\$29,000
Drycleaning	\$24,000
Sales commissions on tuxedo rentals	\$15,000
Store rent	\$24,000
Store utilities	\$6,800
Store window displays	\$5,900
Depreciation on office equipment	\$16,000
Insurance	\$8,500
President's salary	\$62,000

Calculate each of the following, where the cost object is tuxedo rentals:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

a. $\$46,000 = \$7,000 + \$24,000 + \$15,000$

b. $\$204,200 = \$52,000 + \$29,000 + 24,000 + \$6,800 + \$5,900 + \$16,000 + \$8,500 + \$62,000$

c. $\$39,000 = \$24,000 + \$15,000$

d. $\$211,200 = \$7,000 + \$52,000 + \$29,000 + 24,000 + \$6,800 + \$5,900 + \$16,000 + \$8,500 + \$62,000$

Feedback: Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be

traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

126. Salon de Beauty, a local hair salon, incurred the following costs last month.

Salon rent	\$3,600
Salon utilities (electric and water)	\$890
Hairstylists' salaries	\$10,000
Hairstylists' commissions (a percentage of sales)	\$2,400
Depreciation on fixtures and equipment	\$780
Shampoo and conditioner (only a small amount is used on each customer)	\$500
Insurance	\$1,650
Advertising	\$1,200
Store manager's salary	\$2,800
Hair dye and perm kits (each dye job or perm uses one kit)	\$390

Calculate each of the following, where the cost object is customers served:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

a. $\$4,180 = \$890 + \$2,400 + \$500 + \$390$

b. $\$20,030 = \$3,600 + \$10,000 + \$780 + \$1,650 + \$1,200 + \$2,800$

c. $\$2,790 = \$2,400 + \$390$

d. $\$21,420 = \$3,600 + \$890 + \$10,000 + \$780 + \$500 + \$1,650 + \$1,200 + \$2,800$

Feedback: Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

127. Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items.

Assembly labor wages	\$21,000
Wood	\$17,600
Production supervisor's salary	\$41,000
Advertising	\$9,000
Factory rent	\$19,000
Depreciation on factory equipment	\$8,500
Metal	\$26,000
Wood polish used to finish the wood xylophones	\$900
Factory utilities (dependent on hours)	\$2,800
Paint	\$1,900
Salary of product designer	\$18,500
Depreciation on office equipment	\$2,000
Insurance premiums	\$1,800
President's salary	\$60,000
Glue	\$100

Calculate each of the following, where the cost object is the xylophones manufactured by the company:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

a. $\$70,300 = \$21,000 + \$17,600 + \$26,000 + \$900 + \$2,800 + \$1,900 + \100

b. $\$159,800 = \$41,000 + \$9,000 + \$19,000 + \$8,500 + \$18,500 + \$2,000 + \$1,800 + \$60,000$

c. $\$64,600 = \$21,000 + \$17,600 + \$26,000$

d. $\$165,500 = \$41,000 + \$9,000 + \$19,000 + \$8,500 + \$900 + \$2,800 + \$1,900 + \$18,500 + \$2,000 + \$1,800 + \$60,000 + \$100$

Feedback: Variable costs are those that change, in total, in direct proportion to changes in

activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

128. Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the houses built by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Wages paid to construction crew				
Wood				
Production supervisor's salary				
Billboard advertising the company				
Rent on office space				
Depreciation on tools used at construction sites				
Sheet rock				
Machine purchased to cut a special kind of tile requested by one customer – cannot be re-used				
Gas for the company truck, used to haul supplies to construction sites				
Paint				
Fees paid to electrical contractor, who charges a set amount per house				
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)				
Insurance premiums				
President's salary				
Bricks				

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Wages paid to construction crew	X		X	
Wood	X		X	
Production supervisor's salary		X		X
Billboard advertising the company		X		X
Rent on office space		X		X
Depreciation on tools used at construction sites		X		X
Sheet rock	X		X	
Machine purchased to cut a special kind of tile requested by one customer – cannot be re-used	X			X
Gas for the company truck, used to haul supplies to construction sites		X	X	
Paint	X		X	
Fees paid to electrical contractor, who charges a set amount per house	X		X	
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)		X		X
Insurance premiums		X		X
President's salary		X		X
Bricks	X		X	

Feedback: Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

129. Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is tuxedo rentals.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)				
Salespersons' salaries				
Advertising				
Drycleaning				
Sales commissions on tuxedo rentals				
Store rent				
Store utilities				
Store window displays				
Depreciation on office equipment				
Insurance				
President's salary				

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)		X	X	
Salespersons' salaries		X		X
Advertising		X		X
Drycleaning	X		X	
Sales commissions on tuxedo rentals	X		X	
Store rent		X		X
Store utilities		X		X
Store window displays		X		X
Depreciation on office equipment		X		X
Insurance		X		X
President's salary		X		X

Feedback: Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

130. Salon de Beauty, a local hair salon, incurred the following costs last month. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is customers served.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Salon rent				
Salon utilities (electric and water)				
Hairstylists' salaries				
Hairstylists' commissions (a percentage of sales)				
Depreciation on fixtures and equipment				
Shampoo and conditioner (only a small amount is used on each customer)				
Insurance				
Advertising				
Store manager's salary				
Hair dye and perm kits (each dye job or perm uses one kit)				

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Salon rent		X		X
Salon utilities (electric and water)		X	X	
Hairstylists' salaries		X		X
Hairstylists' commissions (a percentage of sales)	X		X	
Depreciation on fixtures and equipment		X		X
Shampoo and conditioner (only a small amount is used on each customer)		X	X	
Insurance		X		X
Advertising		X		X
Store manager's salary		X		X
Hair dye and perm kits (each dye job or perm uses one kit)	X		X	

Feedback: Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

131. Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the xylophones manufactured by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Assembly labor wages				
Wood				
Production supervisor's salary				
Advertising				
Factory rent				
Depreciation on factory equipment				
Metal				
Wood polish used to finish the wood xylophones				
Factory utilities (dependent on hours)				
Paint				
Salary of product designer				
Depreciation on office equipment				
Insurance premiums				
President's salary				
Glue				

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Assembly labor wages	X		X	
Wood	X		X	
Production supervisor's salary		X		X
Advertising		X		X
Factory rent		X		X
Depreciation on factory equipment		X		X
Metal	X		X	
Wood polish used to finish the wood xylophones		X	X	
Factory utilities (dependent on hours)		X	X	
Paint		X	X	
Salary of product designer		X		X
Depreciation on office equipment		X		X
Insurance premiums		X		X
President's salary		X		X
Glue		X	X	

Feedback: Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are

indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

132. Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items.

Wages paid to construction crew	\$105,000
Wood	\$176,000
Production supervisor's salary	\$52,000
Billboard advertising the company	\$9,000
Rent on office space	\$12,000
Depreciation on tools used at construction sites	\$32,500
Sheet rock	\$84,000
Machine purchased to cut a special kind of tile requested by one customer – cannot be re-used	\$8,300
Gas for the company truck, used to haul supplies to construction sites	\$2,800
Paint	\$9,600
Fees paid to electrical contractor, who charges a set amount per house	\$12,500
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)	\$10,000
Insurance premiums	\$13,800
President's salary	\$101,000
Bricks	\$89,000

Calculate each of the following, where the cost object is the houses built by the company:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

a. $\$478,900 = \$105,000 + \$176,000 + \$84,000 + \$2,800 + \$9,600 + \$12,500 + \$89,000$

b. $\$238,600 = \$52,000 + \$9,000 + \$12,000 + \$32,500 + \$8,300 + \$10,000 + \$13,800 + \$101,000$

c. $\$484,400 = \$105,000 + \$176,000 + \$84,000 + \$8,300 + \$9,600 + \$12,500 + \$89,000$

d. $\$233,100 = \$52,000 + \$9,000 + \$12,000 + \$32,500 + \$2,800 + \$10,000 + \$13,800 +$
 $\$101,000$

Feedback: Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Direct versus indirect costs

Topic: Variable versus fixed costs

133. Cactus Cookies incurred the following costs this month to manufacture 1,000 jumbo chocolate chip cookies.

Chocolate chips	\$75.00
Flour	\$22.00
Butter	\$48.50
Sugar	\$30.00
Other ingredients	\$27.00
Labor wages	\$300.00
Rent on manufacturing space	\$250.00
Utilities (paid at a fixed monthly rate)	\$52.00
Depreciation on kitchen equipment	\$88.00

Calculate each of the following:

- The total variable cost this month
- The total fixed cost this month
- The variable cost per cookie this month
- The fixed cost per cookie this month
- The total variable cost if Cactus Cookies had manufactured 2,000 cookies this month
- The total fixed cost if Cactus Cookies had manufactured 2,000 cookies this month
- The variable cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month
- The fixed cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month

a. $\$502.50 = \$75.00 + \$22.00 + \$48.50 + \$30.00 + \$27.00 + \$300.00$

b. $\$390.00 = \$250.00 + \$52.00 + \88.00

c. $\$0.5025 = \$502.50/1,000$

d. $\$0.39 = \$390/1,000$

e. $\$1005.00 = \$0.5025 \times 2,000$

f. $\$390.00 = \$250.00 + \$52.00 + \88.00

g. $\$0.5025$

h. $\$0.195 = \$390/2,000$

Feedback: Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-04 Define and give examples of different types of cost: Out-of-pocket or opportunity costs; Direct or indirect costs; Variable or fixed costs; Manufacturing or nonmanufacturing costs; Product or period costs; Relevant or irrelevant costs

Topic: Variable versus fixed costs