

Ch. 2 Practice Quiz

1. Abair Company's manufacturing overhead is 20% of its total conversion costs. If direct labor is \$38,000 and if direct materials are \$35,000, the manufacturing overhead is:
 - A) \$18,250
 - B) \$9,500
 - C) \$8,750
 - D) \$152,000

2. A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is \$3,000 and is paid at the beginning of the first year. Three-fourths of the premium applies to factory operations and one-fourth applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?

	Product	Period
A)	\$1,000	\$0
B)	\$250	\$750
C)	\$2,250	\$750
D)	\$750	\$250

3. Last month a manufacturing company had the following operating results:

Beginning finished goods inventory	\$72,000
Ending finished goods inventory	\$66,000
Sales	\$465,000
Gross margin	\$88,000

What was the cost of goods manufactured for the month?

- A) \$371,000
- B) \$459,000
- C) \$383,000
- D) \$377,000

Clyde Company has provided the following data for the month of November:

<i>Inventories</i>	<i>November 1</i>	<i>November 30</i>
Raw materials	\$17,000	?
Work in process	\$14,000	\$12,000
Finished goods	?	\$9,000

Additional Data:

Sales revenue	\$102,000
Direct labor costs	\$10,000
Manufacturing overhead costs	\$12,000
Selling expenses	\$14,000
Administrative expenses	\$16,000
Cost of goods manufactured	\$40,000
Raw materials purchases	\$10,000

4. The ending raw materials inventory was:

- A) \$11,000
- B) \$23,000
- C) \$10,000
- D) \$12,000

5. If the net operating income was \$40,000, then the beginning finished goods inventory was:

- A) \$22,000
- B) \$9,000
- C) \$42,000
- D) \$1,000

At a sales volume of 30,000 units, Carne Company's total fixed costs are \$30,000 and total variable costs are \$45,000. The relevant range is 20,000 to 40,000 units.

6. If Carne Company were to sell 32,000 units, the total expected cost would be:
- A) \$75,000
 - B) \$78,000
 - C) \$80,000
 - D) \$77,000

7. Bill Pope has developed a new device that is so exciting he is considering quitting his job in order to produce and market it on a large-scale basis. Bill will rent a garage for \$300 per month for production purposes. Utilities will cost \$40 per month. Bill has already taken an industrial design course at the local community college to help prepare for this venture. The course cost \$300. Bill will rent production equipment at a monthly cost of \$800. He estimates the material cost per unit will be \$5, and the labor cost will be \$3. He will hire workers and spend his time promoting the product. To do this he will quit his job which pays \$3,000 per month. Advertising and promotion will cost \$900 per month.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. There can be "Xs" placed under more than one heading for a single cost, e.g., a cost might be a sunk cost, an overhead cost and a product cost; there would be an "X" placed under each of these headings opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manufacturing Overhead Cost	Product Cost	Selling Cost	Differential Cost*
Garage rent								
Utilities								
Cost of the industrial design course								
Equipment rented								
Material cost								
Labor cost								
Present salary								
Advertising								

* Between the alternatives of going into business to make the device or not going into business to make the device.

8. Lettman Corporation has provided the following partial listing of costs incurred during November:

Marketing salaries	\$45,000
Property taxes, factory	\$9,000
Administrative travel	\$98,000
Sales commissions	\$48,000
Indirect labor	\$38,000
Direct materials	\$165,000
Advertising	\$138,000
Depreciation of production equipment	\$39,000
Direct labor	\$87,000

Required:

- What is the total amount of product cost listed above? Show your work.
- What is the total amount of period cost listed above? Show your work.

9. Corio Corporation reports that at an activity level of 3,800 units, its total variable cost is \$221,464 and its total fixed cost is \$94,848.

Required:

For the activity level of 3,900 units, compute: (a) the total variable cost; (b) the total fixed cost; (c) the total cost; (d) the average variable cost per unit; (e) the average fixed cost per unit; and (f) the average total cost per unit. Assume that this activity level is within the relevant range.

10. Slonaker Inc. has provided the following data concerning its maintenance costs:

	Machine-Hours	Maintenance Cost
April.....	5,799	\$30,379
May.....	5,782	\$30,289
June.....	5,764	\$30,237
July.....	5,761	\$30,233
August.....	5,717	\$30,078
September.....	5,795	\$30,360
October.....	5,809	\$30,388
November.....	5,801	\$30,378
December.....	5,785	\$30,318

Management believes that maintenance cost is a mixed cost that depends on machine-hours.

Required:

Estimate the variable cost per machine-hour and the fixed cost per month using the high-low method. Show your work!

11. Whitman Corporation, a merchandising company, reported sales of 7,400 units for May at a selling price of \$677 per unit. The cost of goods sold (all variable) was \$441 per unit and the variable selling expense was \$54 per unit. The total fixed selling expense was \$155,600. The variable administrative expense was \$24 per unit and the total fixed administrative expense was \$370,400.

Required:

- a. Prepare a contribution format income statement for May.
- b. Prepare a traditional format income statement for May.