

## Review II

NUMBER \_\_\_\_\_

1. Which of the following is a characteristic of managerial accounting?
  - a. It is used primarily by external users.
  - b. It often lacks flexibility.
  - c. It is often future-oriented.
  - d. The information it provides is extremely precise.
  
2. Which of the following statements is *false* regarding nonmanufacturing costs?
  - a. They are incurred outside the factory.
  - b. They include selling and administrative costs.
  - c. They are not directly incurred to make a product.
  - d. They include indirect materials and indirect labor costs.
  
3. Which of the following would most likely be classified as indirect materials?
  - a. Wood used to build a customized bookshelf
  - b. Lubricants used on factory machinery
  - c. Supplies used by the administrative employees
  - d. Packing pellets used for shipping products to customers
  
4. Which of the following types of employees would most likely have their wage be classified as direct labor?
  - a. Factory maintenance worker
  - b. Factory supervisor
  - c. Managerial accountant
  - d. Assembly-line factory worker
  
5. Which of the following *decreases* the work-in-process account?
  - a. Raw materials used
  - b. Cost of goods manufactured
  - c. Direct labor
  - d. Manufacturing overhead

NARRBEGIN: Michael's Manufacturing

**Michael's Manufacturing, Inc.**

Michael's Manufacturing, Inc. has the following information available for the month of July:

	<u>Beginning</u>	<u>Ending</u>
Raw materials inventory	\$50,000	\$ 62,000
Work-in-process inventory	80,000	55,000
Finished goods inventory	24,000	35,000
Raw materials purchased		\$120,000
Direct labor costs		60,000
Overhead costs		45,000

6. Refer to the Michael's Manufacturing, Inc. information above. Raw materials used for July is:
  - a. \$112,000
  - b. \$108,000
  - c. \$120,000
  - d. \$132,000
  
7. Refer to the Michael's Manufacturing, Inc. information above. Cost of goods manufactured for July is:
  - a. \$188,000
  - b. \$250,000
  - c. \$238,000
  - d. \$213,000

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8. Refer to the Michael's Manufacturing, Inc. information above. Cost of goods sold for July is:
- \$227,000
  - \$202,000
  - \$249,000
  - \$239,000
9. Companies that manufacture products such as custom-designed decks and pools would most likely use which type of costing?
- Process costing
  - Job costing
  - Operations costing
  - Normal costing
10. The formula for calculating the amount of overhead applied to a product is:
- Predetermined overhead rate  $\times$  Estimated units of cost driver
  - Predetermined overhead rate  $\times$  Actual overhead costs
  - Predetermined overhead rate  $\times$  Actual units of cost driver
  - Predetermined overhead rate  $\times$  Estimated overhead costs
- NARRBEGIN: Aronson & Assoc. LLP
- Aronson & Associates LLP**
- Aronson & Associates LLP, an accounting firm, assigns overhead to clients based on direct labor hours. The following information is available for the month of March:
- |                              |             |
|------------------------------|-------------|
| Estimated direct labor hours | 4,000 hours |
| Estimated overhead costs     | \$8,000     |
| Actual direct labor hours    | 4,200 hours |
| Actual overhead costs        | \$8,190     |
11. Refer to the Aronson & Associates LLP information above. The predetermined overhead rate for the month of March is:
- \$2.00 per direct labor hour
  - \$ .50 per direct labor hour
  - \$1.95 per direct labor hour
  - \$1.90 per direct labor hour
12. Refer to the Aronson & Associates LLP information above. The amount of applied overhead for March will be:
- \$7,800
  - \$8,400
  - \$8,610
  - \$8,000
13. Refer to the Aronson & Associates LLP information above. By how much was overhead over- or underapplied for the month of March?
- \$210 overapplied
  - \$400 overapplied
  - \$190 underapplied
  - \$390 underapplied
14. Wintergreen Products allocates overhead based on direct labor hours. During 2009 overhead was overapplied by \$4,000. Assuming that the year-end adjustment to clear out the overapplied overhead has not yet been done, which of the following statements is most likely *true* if there are no ending inventories?
- Cost of goods manufactured is understated
  - Direct labor costs are overstated
  - Cost of goods sold is overstated
  - Net income is overstated
15. Which of the following statements is *true* regarding activity-based costing (ABC)?
- It is based on the concept that a single cost driver can drive all overhead costs.
  - It is based on the concept that activities drive overhead costs.
  - It is based on the concept that unit-level costs drive all overhead costs.
  - It is based on the concept that either the number of direct labor or machine hours incurred drives all overhead costs.

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16. Which of the following statements is *true* regarding cross-subsidies?
- They occur when factory workers are trained to work on many different machines.
  - They occur when high-volume products are assigned more than their fair share of overhead costs.
  - They occur when high-volume products have more direct material and direct labor costs than overhead costs.
  - They occur when more than one cost driver can be determined for a particular overhead cost item.
17. Activity-based costing (ABC):
- should not be applied to non-manufacturing activities.
  - should not be applied to service companies.
  - can be applied to administrative activities.
  - can only be used by manufacturing companies.
18. In a just-in-time environment, the production process often *begins* when:
- products are moved from raw materials to work-in-process.
  - a customer places an order.
  - the product is delivered to a customer.
  - products are moved from work-in-process to finished goods.

NARRBEGIN: Hillsborough Street

**Hillsborough Street Manufacturing Inc.**

Hillsborough Street Manufacturing Inc. incurred the following costs in 2009:

Direct materials used	\$37,000
Direct labor costs	45,000
Factory rent and utilities	18,000
Factory equipment depreciation	10,000
Marketing expenses	3,000
Administrative expenses	9,000

50,000 units were produced during the year out of which 40,000 units were sold for \$10 each. There was no beginning or ending raw materials or work-in-process inventory.

NARREND

19. Refer to the Hillsborough Street Manufacturing Inc. information above. What is the product cost per unit?
- \$3.05
  - \$2.75
  - \$2.44
  - \$2.20

Joe's Coffee House has the following information available for the month of July:

Sales (2,500 cups)	\$7,500
Variable costs	3,250
Fixed costs	<u>4,000</u>
Net Income	<u>\$ 250</u>

20. Refer to the Joe's Coffee House information above. Each additional cup of coffee sold will increase net income by:
- \$1.70
  - \$3.00
  - \$1.00
  - \$ .57
21. Refer to the Joe's Coffee House information above. If Joe's sells 500 more cups of coffee per month, net income will:
- increase by \$850.
  - increase by \$100.
  - increase by \$150.
  - increase by \$1,500.

22. Refer to the Joe's Coffee House information above. All else being equal, if Joe's increases the sales price per unit by 10%, net income will:
- increase by \$425.
  - increase by \$750.
  - increase by \$75.
  - not change.

23. Jazz Products has the following information available for the month of March:

Sales (4,000 units)	\$40,000
Variable costs	18,000
Fixed costs	<u>5,000</u>
Net income	<u>\$17,000</u>

The company's manager is considering several options to increase net income. By what amount do sales dollars need to increase in order for net income to increase to \$25,000?

- \$14,545
  - \$25,000
  - \$ 3,000
  - \$18,820
24. All else being equal, which of the following would *not* cause the contribution margin to increase?
- A decrease in variable costs per unit.
  - An increase in sales volume.
  - A decrease in fixed costs per unit.
  - An increase in the sales price per unit.
25. As production *increases*, fixed costs *per unit* \_\_\_\_\_.
- increase
  - decrease
  - stay the same
  - can not be predicted
26. Which of the following types of costs is *not* the most likely to be classified as variable?
- Direct materials
  - Factory supplies
  - Direct labor
  - Administrative building rent

27. A local science museum normally sells tickets to its museum for \$6 each. The daily maximum capacity of the museum is 500 visitors. At the maximum capacity, fixed costs are \$3 per visitor and variable costs are \$.50 per visitor. A local school group has approached the museum wishing to purchase 25 special passes at a cost of \$2.00 each. Assuming the museum has excess capacity, if the special order were accepted, net income would:
- increase by \$37.50.
  - decrease by \$87.50.
  - increase by \$50.00.
  - decrease by \$37.50.

28. You are given the following cost and volume information:

Volume (in units)	Total Cost (in \$)
200	\$1,000
400	2,000
600	3,000

Which type of cost is given?

- Variable
- Fixed
- Step
- Mixed

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29. A manufacturer is developing a new type of consumer electronic which will have a target price of \$325. In order to maintain a target profit equal to 30 percent of the selling price, the target cost should be:
- \$250.00
  - \$ 97.50
  - \$152.50
  - \$227.50
30. A company's manager estimates that in the upcoming year, total variable costs will increase by \$20,000 and total fixed costs will decrease by \$14,000. What will be the anticipated effect on net income?
- Net income will increase by \$34,000.
  - Net income will decrease by \$34,000.
  - Net income will increase by \$6,000.
  - Net income will decrease by \$6,000.

**Stealth Software Inc.**

Stealth Software Inc. has the following information available from last year for one of its software products:

Sales revenue	\$30,000
Variable costs	4,950
Fixed costs	<u>4,000</u>
Net income	<u>\$21,050</u>

31. Refer to the Stealth Software Inc. information above. If the software had a sales price of \$30 per unit, what is the variable cost per unit?
- \$165.00
  - \$ .20
  - \$ 25.05
  - \$ 4.95
32. Refer to the Stealth Software Inc. information above. If the software had a sales price of \$30 per unit, what is the contribution margin per unit?
- \$34.95
  - \$21.05
  - \$25.05
  - can not be determined
33. Refer to the Stealth Software Inc. information above. If the sales price per unit is \$30 and the company expects a 30% increase in sales volume this year along with a 20% decrease in fixed costs. What will be expected net income this year?
- \$30,850
  - \$41,065
  - \$23,155
  - \$29,365