

Chapter 16(1)

Managerial Accounting Concepts and Principles

OBJECTIVES

Obj 1	Describe managerial accounting, and the role of managerial accounting in a business.
Obj 2	Define and illustrate the following costs: direct and indirect, direct materials, direct labor, factory overhead, and product and period costs.
Obj 3	Describe and illustrate the financial statement elements and cost relationships for a manufacturing business.
Obj 4	Describe the various uses of managerial accounting information.

TRUE/FALSE

1. Accounting is an information system that provides essential data about the economic activities of an entity to various users to aid them in making informed judgments and decisions.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

2. Managerial accounting reports are prepared according to generally accepted accounting principles.

ANS: F DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

3. Managerial accounting information includes both historical and estimated data.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

4. Since there are few rules to restrict how an organization chooses to arrange its own internal data for decision making, managerial accounting provides ample opportunity for creativity and change.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

5. A diagram of the operating structure of an organization is called an organization chart.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

6. In most business organizations, the chief accountant is called the treasurer.

ANS: F DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

7. In most business organizations, the chief accountant is called the controller.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

8. A staff department or unit is one that provides services, assistance, and advice to the departments with line or other staff responsibilities.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

9. The vice presidents of production and sales and the controller hold line positions in most large organizations.

ANS: F DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

10. A staff department has no direct authority over a line department.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

11. The controller's staff consists of management accountants responsible for systems and procedures, general accounting, budgets, taxes, and cost accounting.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

12. Managerial accounting reports must be useful to the user of the information.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

13. Planning is the process of directing operations to achieve the organization's goals and plans.

ANS: F DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

14. Planning is the process of setting goals for the use of an organization's resources and of developing ways to achieve these goals.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

15. Control is the process of directing operations to achieve the organization's goals and plans.

ANS: T DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

16. Managerial accounting provides useful information to managers on product costs.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

17. The payment of dividends is an example of a cost.

ANS: F DIF: Moderate OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

18. A cost can be a payment of cash for the purpose of generating revenues.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

19. The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and factory overhead cost.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

20. The cost of materials entering directly into the manufacturing process is classified as factory overhead cost.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

21. The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

22. If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

23. For a construction contractor, the wages of carpenters would be classified as factory overhead cost.

ANS: F DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

24. For an automotive repair shop, the wages of mechanics would be classified as direct labor cost.

ANS: T DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

25. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as factory overhead cost.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

26. Depreciation on factory plant and equipment is an example of factory overhead cost.

ANS: T DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

27. Cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.

ANS: F DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

28. If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part of factory overhead cost.

ANS: T DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

29. Factory overhead cost is sometimes referred to as factory burden.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

30. Conversion cost is the combination of direct labor cost and factory overhead cost.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

31. Conversion cost is the combination of direct materials cost and factory overhead cost.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

32. Factory overhead is an example of a product cost.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

33. Direct labor costs are included in the conversion costs of a product.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

34. The costs of materials and labor that do not enter directly into the finished product are classified as factory overhead.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

35. The costs of materials and labor that do not enter directly into the finished product are classified as cost of goods sold.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

36. Indirect labor would be included in factory overhead.

ANS: T DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

37. A cost object is how costs are related or identified.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

38. Direct costs can be specifically traced to a cost object.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

39. Indirect costs can be specifically identified to a cost object.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

40. Nonmanufacturing costs are classified into two categories: selling and administrative.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

41. Prime costs are the combination of direct labor costs and factory overhead costs.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

42. Prime costs are the combination of direct materials and direct labor costs.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

43. Conversion costs are the combination of direct labor and factory overhead costs.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

44. Product costs are also referred to as inventoriable costs.

ANS: T DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

45. Period costs include direct materials and direct labor.

ANS: F DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

46. Period costs can be found in the balance sheet or in the income statement.

ANS: F DIF: Easy OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

47. On the balance sheet for a manufacturing business, the cost of direct materials, direct labor, and factory overhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.

ANS: T DIF: Moderate OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

48. Only the value of the inventory that is sold will appear in the income statement.

ANS: T DIF: Moderate OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

49. The statement of cost of goods manufactured is an extension of the income statement for a manufacturing company.

ANS: T DIF: Moderate OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

50. Managers use managerial information to evaluate performance of a company's operation.

ANS: T DIF: Easy OBJ: 16(1)-04

NAT: AACSB Analytic | IMA-Cost Management

51. Managerial information is for external as well as internal stakeholders.

ANS: F DIF: Easy OBJ: 16(1)-04

NAT: AACSB Analytic | IMA-Cost Management

MATCHING

The following are some of the costs incurred by Cake Factory Company. Identify them as either:

- a. Direct Materials
 - b. Direct Labor
 - c. Factory Overhead
 - d. Non manufacturing cost
-
1. Salesman commissions
 2. Factory Rent
 3. Depreciation expense - factory
 4. Frosting
 5. Baker's wages
 6. Depreciation expense - office
 7. Cake mix
 8. Sprinkles for decoration (indirect material)
-
1. ANS: D DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 2. ANS: C DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 3. ANS: C DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 4. ANS: A DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 5. ANS: B DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 6. ANS: D DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 7. ANS: A DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management
 8. ANS: C DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

The following are some of the costs incurred by Cake Factory Company. Identify them as either:

- a. Prime costs
 - b. Conversion costs
 - c. Both prime and conversion costs
 - d. Neither prime or conversion costs
9. Salesman commissions
 10. Factory rent
 11. Depreciation expense - factory
 12. Frosting
 13. Baker's wages
 14. Depreciation expense - office
 15. Cake mix
 16. Sprinkles for decoration (indirect material)

9. ANS: D DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

10. ANS: B DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

11. ANS: B DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

12. ANS: A DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

13. ANS: C DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

14. ANS: D DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

15. ANS: A DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

16. ANS: B DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

MULTIPLE CHOICE

1. In order to be useful to managers, management accounting reports should possess all of the following characteristics EXCEPT:
- provide objective measures of past operations and subjective estimates about future decisions
 - be prepared in accordance with generally accepted accounting principles
 - be provided at any time management needs information
 - be prepared to report information for any unit of the business to support decision making

ANS: B DIF: Easy OBJ: 16(1)-01
NAT: AACSB Analytic | IMA-Cost Management

2. What is the primary criterion for the preparation of managerial accounting reports?
- Relevance of the reports
 - Meet the manager needs
 - Timing of the reports
 - Cost of the reports

ANS: B DIF: Easy OBJ: 16(1)-01
NAT: AACSB Analytic | IMA-Cost Management

3. Which of the following is most associated with managerial accounting?
- Must follow GAAP
 - May rely on estimates and forecasts
 - Is prepared for users outside the organization.
 - Always reports on the entire entity

ANS: B DIF: Easy OBJ: 16(1)-01
NAT: AACSB Analytic | IMA-Cost Management

4. Which of the following is most associated with financial accounting?
- Can have both objective and subjective information.
 - Can be prepared periodically, or as needed.
 - Prepared in accordance with GAAP
 - Can be prepared for the entity or segment.

ANS: C DIF: Easy OBJ: 16(1)-01
NAT: AACSB Analytic | IMA-Cost Management

5. Which of the following statements is false?
- There is no overlap between financial and managerial accounting.
 - Managerial accounting sometimes relies on past information.
 - Managerial accounting does not need to conform to GAAP
 - Financial accounting must conform to GAAP.

ANS: A DIF: Easy OBJ: 16(1)-01
NAT: AACSB Analytic | IMA-Cost Management

6. In most business organizations, the chief management accountant is called the:
- chief accounting officer
 - controller
 - chairman of the board
 - chief executive officer

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

7. All of the following employees hold line positions in Anthea Electric EXCEPT:
- vice president of production
 - vice president of finance
 - manager of the Valhalla Plant
 - vice president of sales

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

8. The controller's staff often consists of several management accountants. All of the following would most likely be on the controller's staff EXCEPT:
- general accountants
 - budgets and budget analysts
 - investments and shareholder relations managers
 - cost accountants

ANS: C DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

9. Managerial accounting
- is prepared according to GAAP.
 - is prepared according to management needs.
 - is prepared periodically only.
 - is related to the entire business entity only.

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

10. Who are the individuals charged with the responsibility for directing the day-to-day operations of a business?
- Investors
 - Managers
 - Employees
 - Customers

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

11. Which of the following are the basic functions of management?
- a. Supervising and directing
 - b. Decision making and supervising
 - c. Organizing and directing
 - d. Planning and controlling

ANS: D DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

12. What term is used to describe the process of directing operations to achieve the organization's goals and plans?
- a. Supervising
 - b. Control
 - c. Directing
 - d. Planning

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

13. What term is used to describe the process of developing the organization's objectives and goals?
- a. Supervising
 - b. Planning
 - c. Improving
 - d. Decision making

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

14. Which of the following is the principle reason for preparing managerial accounting reports?
- a. Usefulness to management
 - b. Cost of preparation
 - c. Clarity
 - d. GAAP

ANS: A DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

15. Which of the following is not a characteristic of useful managerial accounting reports?
- a. Accuracy
 - b. GAAP
 - c. historical and estimated data
 - d. reports prepared as needed

ANS: B DIF: Easy OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

16. Compute conversion costs given the following data: Direct Materials, \$352,700; Direct Labor, \$196,300; Factory Overhead, \$177,600.
- a. \$549,000
 - b. \$726,600
 - c. \$373,900
 - d. \$530,300

ANS: C DIF: Moderate OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

17. Which of the following is false in regards to direct materials for an auto manufacturer?
- a. Steel would probably be a direct material.
 - b. Upholstery fabric would probably be a direct material
 - c. Oil to lubricate factory machines would not be a direct material.
 - d. Small plastic clips to hold on door panels, because they become part of the auto, must be accounted for as direct materials.

ANS: D DIF: Moderate OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

18. The cost of a manufactured product generally consists of which of the following costs?
- a. Direct materials cost and factory overhead cost
 - b. Direct labor cost and factory overhead cost
 - c. Direct labor cost, direct materials cost, and factory overhead cost
 - d. Direct materials cost and direct labor cost

ANS: C DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

19. The cost of materials entering directly into the manufacturing process is classified as:
- a. direct labor cost
 - b. factory overhead cost
 - c. burden cost
 - d. direct materials cost

ANS: D DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

20. Which of the following is an example of direct materials cost for an automobile manufacturer?
- a. Cost of oil lubricants for factory machinery
 - b. Cost of wages of assembly worker
 - c. Salary of production supervisor
 - d. Cost of interior upholstery

ANS: D DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

21. If the cost of direct materials is a small portion of total production cost, it may be classified as part of:
- direct labor cost
 - selling and administrative costs
 - miscellaneous costs
 - factory overhead cost

ANS: D DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

22. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished product is classified as:
- factory overhead cost
 - direct labor cost
 - wages expense
 - direct materials cost

ANS: B DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

23. Which of the following is an example of direct labor cost for an airplane manufacturer?
- Cost of oil lubricants for factory machinery
 - Cost of wages of assembly worker
 - Salary of plant supervisor
 - Cost of jet engines

ANS: B DIF: Difficult OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

24. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as:
- factory overhead cost
 - miscellaneous expense
 - product costs
 - other manufacturing costs

ANS: A DIF: Easy OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

25. Which of the following is an example of a factory overhead cost?
- Repair and maintenance cost on the administrative building
 - Factory heating and lighting cost
 - Insurance premiums on salespersons' automobiles
 - President's salary

ANS: B DIF: Difficult OBJ: 16(1)-02
NAT: AACSB Analytic | IMA-Cost Management

26. Another term often used to refer to factory overhead is:
- a. surplus
 - b. other manufacturing cost
 - c. supervisory cost
 - d. factory burden

ANS: D DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

27. Which of the following costs are referred to as conversion costs?
- a. Direct labor cost and factory overhead cost
 - b. Direct materials cost and direct labor cost
 - c. Factory overhead cost
 - d. Direct materials cost and factory overhead cost

ANS: A DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

28. What term is used to refer to the cost of changing direct materials into a finished manufactured product?
- a. Factory overhead cost
 - b. Period cost
 - c. Conversion cost
 - d. Direct labor cost

ANS: C DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

29. Which of the following items would not be classified as part of factory overhead?
- a. Direct labor used
 - b. Amortization of manufacturing patents
 - c. Production supervisors' salaries
 - d. Factory supplies used

ANS: A DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

30. Which of the following is considered a part of factory overhead cost?
- a. Sales commissions
 - b. Depreciation of factory buildings
 - c. Depreciation of office equipment
 - d. Direct materials used

ANS: B DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

31. Which of the following manufacturing costs is an indirect cost of producing a product?
- a. Oil lubricants used for factory machinery
 - b. Commissions for sales personnel
 - c. Hourly wages of an assembly worker
 - d. Memory chips for a microcomputer manufacturer

ANS: A DIF: Difficult OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

32. Prime costs are
- a. direct materials and factory overhead
 - b. direct materials and direct labor
 - c. direct labor and factory overhead
 - d. period costs and factory overhead

ANS: B DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

33. Conversion costs are
- a. direct materials and direct labor
 - b. direct materials and factory overhead
 - c. factory overhead and direct labor
 - d. direct materials and indirect labor

ANS: C DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

34. Which of the following is not a prime cost?
- a. Supervisor's wages
 - b. Direct labor wages
 - c. Machine operator wages
 - d. Assembly line wages

ANS: A DIF: Moderate OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

35. The following are all product costs except:
- a. Direct materials
 - b. Sales and administrative expenses
 - c. Direct labor
 - d. Factory overhead

ANS: B DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

36. One of the following will not be found on the balance sheet of a manufacturing company.
- a. cost of goods sold
 - b. materials
 - c. work in process
 - d. finished goods

ANS: A DIF: Moderate OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

37. In the income statement of a manufacturing company, what replaces purchases in the cost of goods section of a retail company?
- a. Finished goods
 - b. Cost of merchandise available
 - c. Cost of goods manufactured
 - d. Work in process completed

ANS: C DIF: Moderate OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

38. What is the purpose of the Statement of Cost of Goods Manufactured?
- a. to determine the ending materials inventory
 - b. to determine the ending work in process inventory
 - c. to determine the amounts transferred to finished goods
 - d. all of the answers are true

ANS: D DIF: Difficult OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

39. Which of the following accounts will be found on the income statement?
- a. inventory
 - b. work in process
 - c. finished goods
 - d. cost of merchandise sold

ANS: D DIF: Easy OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management

40. All of the following are ways that managers use managerial information except
- a. to evaluate the company's stock performance
 - b. to evaluate the performance of a company's operations
 - c. to support long-term planning decisions
 - d. to determine the cost of manufacturing a product

ANS: A DIF: Moderate OBJ: 16(1)-04

NAT: AACSB Analytic | IMA-Cost Management

EXERCISE/OTHER

1. The aspects of the management process are listed below. Match each phase to the appropriate description.

_____ Planning
 _____ Directing
 _____ Controlling
 _____ Improving
 _____ Decision making

- (a) Used by managers for continuous improvement
 (b) Managers must decide how to respond to unfavorable performances
 (c) Used by management to develop the organization's objectives and goals
 (d) Monitoring the operating results of implemented plans and comparing actual results
 (e) Managers run their day to day activities

ANS:

- c Planning
 e Directing
 d Controlling
 a Improving
 b Decision making

DIF: Moderate OBJ: 16(1)-01

NAT: AACSB Analytic | IMA-Cost Management

TOP: Example Exercise 16(1)-1

2. Identify the following costs as (a) direct materials, (b) direct labor, or (c) factory overhead for a cake manufacturer.

1. _____ Frosting
 2. _____ Depreciation on oven
 3. _____ Wages of bakers
 4. _____ Sprinkles for topping

ANS:

1. Direct material
 2. Factory overhead
 3. Direct labor
 4. Factory overhead

DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

TOP: Example Exercise 16(1)-2

3. Identify the following costs as (a) prime cost, (b) conversion cost, (c) or both for a cake factory.
1. _____ Frosting
 2. _____ Wages of the baker
 3. _____ Sprinkles for the topping
 4. _____ Depreciation on oven

ANS:

1. a
2. c
3. b
4. b

DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

TOP: Example Exercise 16(1)-3

4. Identify the following costs as a (a) product cost or (b) period cost for a cake factory.
1. _____ Frosting
 2. _____ Baker's wages
 3. _____ Advertising fees
 4. _____ Transportation out

ANS:

1. a
2. a
3. b
4. b

DIF: Easy OBJ: 16(1)-02

NAT: AACSB Analytic | IMA-Cost Management

TOP: Example Exercise 16(1)-4

5. The Cake Factory has the following information for the month March. Determine the (a) cost of goods manufactured, and (b) cost of goods sold.

Cost of materials placed in production	\$69,000
Direct labor	25,000
Factory overhead	34,000
Work in process, March 1	17,000
Work in process, March 31	18,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	23,000

ANS:

(a)

Work in process inventory, March 1		\$17,000
Cost of materials placed in production	\$69,000	
Direct labor	25,000	
Factory overhead	34,000	
Total manufacturing costs added		<u>128,000</u>
Total manufacturing costs		145,000
Less: Work in process inventory, March 31		<u>18,500</u>
Cost of goods manufactured		126,500

(b)

Finished goods inventory, March 1	\$21,000
Cost of goods manufactured	<u>126,500</u>
Cost of finished goods available for sale	147,500
Less: Finished good inventory, March 31	<u>23,000</u>
Cost of goods sold	<u>124,500</u>

DIF: Difficult OBJ: 16(1)-03
 NAT: AACSB Analytic | IMA-Cost Management

TOP: Example Exercise 16(1)-5

PROBLEM

1. The Cake Factory has the following information for the month of March. Prepare a (a) schedule of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) prepare only the inventory section of the balance sheet.

Purchases	\$85,000
Materials inventory, March 1	6,000
Materials inventory, March 31	7,000
Direct labor	25,000
Factory overhead	34,000
Work in process, March 1	17,000
Work in process, March 31	18,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	23,000
Sales	235,000
Sales and administrative expenses	78,000

ANS:

(a)

Cake Factory			
Statement of Cost of Goods Manufactured			
For Month Ended March 31, 20xx			
Work in process inventory March 1			\$17,000
Direct Materials:			
Materials inventory, March 1	\$6,000		
Purchases	<u>85,000</u>		
Cost of materials for use	91,000		
Less materials inventory, March 31	<u>7,000</u>		
Cost of materials placed in production		84,000	
Direct Labor		25,000	
Factory overhead		<u>34,000</u>	
Total manufacturing costs added			<u>143,000</u>
Total manufacturing costs			160,000
Less work in process inventory, March 31			18,500
Cost of goods manufactured			<u>\$141,500</u>

(b)

Cake Factory		
Income Statement		
For Month Ended March 31, 20xx		
Sales		\$235,000
Cost of goods sold:		
Finished goods inventory, March 1	\$21,000	
Cost of goods manufactured	<u>141,500</u>	
Cost of finished goods available for sales	162,500	
Less finished goods inventory, March 31	23,000	
Cost of goods sold		<u>139,500</u>
Gross Profit		95,500
Operating expenses:		
Sales and administrative expenses		<u>78,000</u>
Net Income		<u>\$17,500</u>

(c)

Inventory:	
Materials	\$7,000
Work in process	18,500
Finished goods	<u>23,000</u>
Total Inventory	\$48,500

DIF: Difficult OBJ: 16(1)-03

NAT: AACSB Analytic | IMA-Cost Management