

[Type text]

Exam No: \_\_\_\_

Dr. M.D. Chase  
Accounting 610  
Examination 1  
Chapters 1-5  
Horngren et. al. 15th

Spring 2011

Business ethics are the cornerstone of a successful free enterprise economy. Personal ethics are the foundation for all personal intercourse. In the University setting, ethical behavior is part of academic honesty. Please read and sign the following statement:

This examination represents my sole effort. I have neither given nor received aid in the completion of this examination.

Signed: \_\_\_\_\_

Printed name: \_\_\_\_\_

1. Management accounting focuses primarily on providing data for:
  - A) external uses by stockholders and creditors.
  - B) internal uses by managers.
  - C) external uses by the Internal Revenue Service.
  - D) external uses by the Securities and Exchange Commission.
  
2. The function of management that compares planned results to actual results is known as:
  - A) planning.
  - B) directing and motivating.
  - C) decision making.
  - D) controlling.
  
3. Which of the following is not one of the three basic activities of a manager?
  - A) Compiling management accounting reports
  - B) Controlling
  - C) Directing and motivating
  - D) Planning
  
4. The delegation of decision making to lower levels in an organization is known as:
  - A) the planning and control cycle.
  - B) decentralization.
  - C) controlling.
  - D) none of these.
  
5. Which of following would normally be found on a manufacturing company's organization chart?
  - A) the layout of the factory assembly lines
  - B) a list of the materials needed to produce each of the company's products
  - C) the informal lines of reporting and communication
  - D) none of the above
  
6. A detailed financial plan for the future is known as a:
  - A) performance report.
  - B) budget.
  - C) organization chart.
  - D) segment.
  
7. A performance report is:
  - A) a detailed report comparing budgeted data to actual data for a specific time period.
  - B) a formal statement of plans for the upcoming period.
  - C) required to be filed monthly by the Securities and Exchange Commission.
  - D) not used in decentralized organizations.

8. A focused factory is:

- A) a factory that makes only a single product.
- B) a factory that performs a single step in the production process and subcontracts the other steps.
- C) required to bid for defense contracts.
- D) a plant layout in which all machines needed to make a particular product are brought together in one location.

9. Indirect labor is a part of:

- A) Prime cost.
- B) Conversion cost.
- C) Period cost.
- D) Nonmanufacturing cost.

10. The salary paid to the president of King Company would be classified on the income statement as a(n):

- A) direct labor cost.
- B) administrative expense.
- C) manufacturing overhead cost.
- D) selling expense.

11. Direct labor cost is a part of:

- |    | Conversion cost | Prime cost |
|----|-----------------|------------|
| A) | No              | No         |
| B) | No              | Yes        |
| C) | Yes             | Yes        |
| D) | Yes             | No         |
- A) Item A
  - B) Item B
  - C) Item C
  - D) Item D

12. Wages paid to a timekeeper in a factory are a:

- |    | Prime cost | Conversion cost |
|----|------------|-----------------|
| A) | Yes        | No              |
| B) | Yes        | Yes             |
| C) | No         | No              |
| D) | No         | Yes             |
- A) Item A
  - B) Item B
  - C) Item C
  - D) Item D

13. The nursing station on the fourth floor of Central Hospital is responsible for the care of patients who have undergone orthopedic surgery. The costs of drugs administered by the nursing station to patients would be classified as:
- indirect costs of the patients.
  - direct costs of the patients.
  - overhead costs of the nursing station.
  - period costs of the hospital.
14. Product costs appear on the balance sheet:
- only if goods are partially completed at the end of the period.
  - only if goods are unsold at the end of a period.
  - only in merchandising firms.
  - only if goods are partially completed or are unsold at the end of a period.
15. The costs of staffing and operating the accounting department at Central Hospital would be considered by the Department of Surgery to be:
- direct costs.
  - indirect costs.
  - incremental costs.
  - opportunity costs.
16. The term that refers to costs incurred in the past that are not relevant to a decision is:
- marginal cost.
  - indirect cost.
  - period cost.
  - sunk cost.
17. The following costs were incurred in February:

|                               |          |
|-------------------------------|----------|
| Direct materials .....        | \$39,000 |
| Direct labor.....             | \$18,000 |
| Manufacturing overhead .....  | \$14,000 |
| Selling expenses .....        | \$13,000 |
| Administrative expenses ..... | \$29,000 |

Prime costs during the month totaled:

- \$57,000
- \$32,000
- \$113,000
- \$71,000

18. During the month of January, direct labor cost totaled \$17,000 and direct labor cost was 60% of prime cost. If total manufacturing costs during January were \$82,000, the manufacturing overhead was:
- A) \$11,333
  - B) \$53,667
  - C) \$28,333
  - D) \$65,000
19. If a company applies overhead to production on the basis of a predetermined rate, a debit balance in the Manufacturing Overhead account at the end of the period means that:
- A) actual overhead cost was greater than the amount charged to production.
  - B) actual overhead cost was less than the amount of direct labor cost.
  - C) more overhead cost has been charged to production than has been charged to finished goods during the period.
  - D) actual overhead cost was less than the amount charged to production.
20. The Work in Process inventory account of a manufacturing company shows a balance of \$18,000 at the end of an accounting period. The job cost sheets of the two uncompleted jobs show charges of \$7,000 and \$2,000 for materials, and charges of \$4,000 and \$2,000 for direct labor. From this information, it appears that the company is using a predetermined overhead rate, as a percentage of direct labor costs, of:
- A) 200%
  - B) 50%
  - C) 300%
  - D) 20%
21. Cribb Corporation uses direct labor-hours in its predetermined overhead rate. At the beginning of the year, the estimated direct labor-hours were 17,900 hours and the total estimated manufacturing overhead was \$341,890. At the end of the year, actual direct labor-hours for the year were 16,700 hours and the actual manufacturing overhead for the year was \$336,890. Overhead at the end of the year was:
- A) \$22,920 underapplied
  - B) \$17,920 overapplied
  - C) \$22,920 overapplied
  - D) \$17,920 underapplied

22. Wall Company uses a predetermined overhead rate based on direct labor hours to apply manufacturing overhead to jobs. The company's estimated costs for the next year are:

|  |          |
|--|----------|
| Direct materials .....                 | \$3,000  |
| Direct labor.....                      | \$20,000 |
| Depreciation on factory equipment..... | \$6,000  |
| Rent on factory .....                  | \$12,000 |
| Sales salaries .....                   | \$29,000 |
| Factory utilities .....                | \$15,000 |
| Indirect labor .....                   | \$6,000  |

It is estimated that 10,000 direct labor hours will be worked during the year. The predetermined overhead rate will be:

- A) \$5.90
- B) \$3.90
- C) \$6.80
- D) \$9.10

Baar Company is a manufacturing firm that uses job-order costing. The company's inventory balances were as follows at the beginning and end of the year:

|                       | <i>Beginning Balance</i> | <i>Ending Balance</i> |
|-----------------------|--------------------------|-----------------------|
| Raw materials.....    | \$26,000                 | \$20,000              |
| Work in process ..... | \$71,000                 | \$53,000              |
| Finished goods .....  | \$66,000                 | \$81,000              |

The company applies overhead to jobs using a predetermined overhead rate based on machine-hours. At the beginning of the year, the company estimated that it would work 44,000 machine-hours and incur \$176,000 in manufacturing overhead cost. The following transactions were recorded for the year:

- Raw materials were purchased, \$459,000.
- Raw materials were requisitioned for use in production, \$465,000 (\$431,000 direct and \$34,000 indirect).
- The following employee costs were incurred: direct labor, \$296,000; indirect labor, \$63,000; and administrative salaries, \$157,000.
- Selling costs, \$134,000.
- Factory utility costs, \$14,000.
- Depreciation for the year was \$119,000 of which \$114,000 is related to factory operations and \$5,000 is related to selling and administrative activities.
- Manufacturing overhead was applied to jobs. The actual level of activity for the year was 47,000 machine-hours.
- Sales for the year totaled \$1,287,000

Required: on the following page:

- a. Prepare a schedule of cost of goods manufactured in good form.
- b. Prepare an income statement for the year in good form. The company closes any under- or overapplied overhead to Cost of Goods Sold.
- c. Use this information to answer questions 23 thru 26

Barr Company  
Cost of Goods Manufactured

Barr Company  
Income Statement

23. What is the predetermined Overhead Rate?
- a. \$4.00
  - b. \$5.00
  - c. \$6.00
  - d. \$5.50
  - e. None of these
24. What is the Manufacturing Overhead Applied?
- a. \$296,000
  - b. \$431,000
  - c. \$53,000
  - d. \$188,000
  - e. None of these
25. What is the Over or Underapplied Overhead?
- a. \$36,000
  - b. \$14,000
  - c. \$28,000
  - d. \$37,000
  - e. None of these
26. What is Net Operating Income
- a. \$14,000
  - b. \$28,000
  - c. \$37,000
  - d. \$36,000
  - e. None of these

27. The weighted-average method of process costing differs from the FIFO method of process costing in that the weighted-average method:
- A) does not consider the degree of completion of units in the beginning work in process inventory when computing equivalent units of production.
  - B) does not require the use of predetermined overhead rates.
  - C) keeps costs in the beginning inventory separate from current period costs.
  - D) can be used under any cost flow assumption.
28. When the weighted-average method of process costing is used, a department's equivalent units are computed by:
- A) subtracting the equivalent units in beginning inventory from the equivalent units in ending inventory.
  - B) subtracting the equivalent units in beginning inventory from the equivalent units for work performed during the period.
  - C) subtracting the equivalent units in beginning inventory from the sum of the units transferred out and the equivalent units in ending inventory.
  - D) adding the units transferred out to the equivalent units in ending inventory.
29. Which of the following types of entities would be most likely to use a process costing system?
- A) a shipbuilder
  - B) a furniture manufacturer
  - C) a law firm
  - D) a utility producing natural gas
30. Darvin Company uses the weighted-average method in its process costing system. The first processing department, the Welding Department, started the month with 20,000 units in its beginning work in process inventory that were 10% complete with respect to conversion costs. The conversion cost in this beginning work in process inventory was \$7,000. An additional 63,000 units were started into production during the month. There were 10,000 units in the ending work in process inventory of the Welding Department that were 10% complete with respect to conversion costs. A total of \$237,600 in conversion costs were incurred in the department during the month.
- What would be the cost per equivalent unit for conversion costs for the month? (Round off to three decimal places.)
- A) \$3.305
  - B) \$3.771
  - C) \$3.500
  - D) \$ 3.255



31. As the level of activity increases, how will a mixed cost in total and per unit behave?

|    | <i>In Total</i> | <i>Per Unit</i> |
|----|-----------------|-----------------|
| A) | Increase        | Decrease        |
| B) | Increase        | Increase        |
| C) | Increase        | No effect       |
| D) | Decrease        | Increase        |
| E) | Decrease        | No effect       |

- A) Item A
- B) Item B
- C) Item C
- D) Item D

32. When the activity level is expected to decline within the relevant range, what effects would be anticipated with respect to each of the following?

|    | <i>Fixed costs<br/>per unit</i> | <i>Variable<br/>costs per unit</i> |
|----|---------------------------------|------------------------------------|
| A) | Increase                        | Increase                           |
| B) | Increase                        | No change                          |
| C) | No change                       | No change                          |
| D) | No change                       | Increase                           |

- A) Item A
- B) Item B
- C) Item C
- D) Item D

33. Which of the following statements is true when referring to fixed costs?

- A) Committed fixed costs arise from the annual decisions by management.
- B) As volume increases, unit fixed cost and total fixed cost will change.
- C) Fixed costs increase in total throughout the relevant range.
- D) Discretionary fixed costs can often be reduced to zero for short periods of time without seriously impairing the long-run goals of the company.

34. Discretionary fixed costs:

- A) cannot be changed since they are fixed.
- B) have a long-term planning horizon, generally encompassing many years.
- C) are made up of facilities, equipment, and basic organization.
- D) responses b and c are both correct.
- E) none of these.

35. An example of a committed fixed cost is:
- management training seminars.
  - a long-term equipment lease.
  - research and development.
  - advertising.
36. In describing the cost formula equation,  $Y = a + bX$ , which of the following is correct:
- "Y" is the independent variable.
  - "a" is the variable cost per unit.
  - "a" and "b" are valid for all levels of activity.
  - in the high-low method, "b" equals the change in cost divided by the change in activity.
37. Contribution margin is:
- Sales less cost of goods sold.
  - Sales less variable production, variable selling, and variable administrative expenses.
  - Sales less variable production expense.
  - Sales less all variable and fixed expenses.
  - none of the above.
38. Your boss would like you to estimate the fixed and variable components of a particular cost. Actual data for this cost over four recent periods appear below.

|                | <i>Activity</i> | <i>Cost</i> |
|----------------|-----------------|-------------|
| Period 1 ..... | 25              | \$363       |
| Period 2 ..... | 22              | \$345       |
| Period 3 ..... | 23              | \$348       |
| Period 4 ..... | 20              | \$322       |

Using the least-squares regression method, what is the cost formula for this cost?

- $Y = \$164.50 + \$8.00X$
- $Y = \$0.00 + \$15.31X$
- $Y = \$160.36 + \$8.18X$
- $Y = \$168.08 + \$5.27X$

Use the following to answer question 39:

Cosco, Inc. has accumulated the following data for the cost of maintenance on its machinery for the last four months:

| <i>Month</i> | <i>Maintenance Cost</i> | <i>Machine Hours</i> |
|--------------|-------------------------|----------------------|
| September    | \$26,020                | 21,000               |
| October      | \$24,600                | 18,500               |
| November     | \$22,300                | 15,000               |
| December     | \$25,100                | 19,000               |

Assume that the relevant range includes all of the activity levels mentioned in this problem

39. Assuming Cosco Company uses the high-low method of analysis, the fixed cost of maintenance would be estimated to be:
- A) \$14,500
  - B) \$ 5,020
  - C) \$12,320
  - D) \$13,000

The following refer to the DJMA case:

40. What type of costs are administrative costs?
- a. Variable product
  - b. Fixed period
  - c. Variable period
  - d. Fixed product
41. Shipping costs are
- a. All variable
  - b. Some fixed and some mixed
  - c. Fixed within the relevant range
  - d. Part of the cost of goods manufactured
42. The total cost to manufacture 1 Tickelope is
- a. Approximately \$0.50
  - b. Approximately \$1.00
  - c. Approximately \$1.21
  - d. Approximately \$1.62