

Exam No: _____

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Accounting 610
Examination 1
Chapters 2-8, 11-14
Horngren et. al. 15th

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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) Hot Company, a producer of salsa, has the following information:

Income tax rate	30%
Selling price per unit	\$8.00
Variable cost per unit	\$3.00
Total fixed costs	\$90,000.00

The contribution margin per unit is _____.

- A) \$8.00 B) \$2.00 C) \$5.00 D) \$3.00

2) Suppose a Holiday Inn Hotel has annual fixed costs applicable to its rooms of \$1.2 million for its 300-room hotel. Average daily room rents are \$50 per room and average variable costs are \$10 for each room rented. It operates 365 days per year. If the hotel is completely full throughout the year, what is net income for one year?

- A) \$3,180,000 B) \$(1,188,000) C) \$4,275,000 D) \$5,475,000

3) Sizzling Company, a producer of electronic components, has the following information:

Income tax rate	30%
Selling price per unit	\$5.00
Variable cost per unit	\$3.00
Total fixed costs	\$90,000.00

The break-even point in dollars is _____.

- A) \$150,000 B) \$225,000 C) \$270,000 D) \$180,000

4) Assume the sales price is \$34 per unit and the variable cost is \$19 per unit. The break-even point is 12,000 units. What are total fixed costs?

- A) \$190,000 B) \$340,000 C) \$530,000 D) \$180,000

5) Medina Hospital has variable costs of 75% of total revenues and fixed costs of \$40 million per year. There are 40,000 patient-days estimated for next year. What is the average daily revenue per patient necessary to breakeven?

- A) \$4,000 B) \$20,000 C) \$1,000 D) \$250

6) If the total amount of fixed costs increases, what is the effect on the break-even point? (Assume no other changes.)

- A) The break-even point increases. B) The break-even point will be zero.
C) The break-even point decreases. D) The break-even point remains the same.

7) In account analysis, users rely on the _____ for information about cost behavior.

- A) performance report B) management audit
C) accounting system D) value chain

8) Engineering analysis and account analysis are similar because _____.

- A) both require the subjective judgment of the analyst
B) both do not develop a cost function
C) both provide timely results
D) both provide more objective results than the high-low method

9) Presented below is the production data for the first six months of the year showing the mixed costs incurred by Euclid Company.

<u>Month</u>	<u>Cost</u>	<u>Units</u>
January	\$7,500	4,000
February	13,000	7,500
March	11,500	9,000
April	11,700	11,500
May	13,500	12,000
June	11,850	6,000

Euclid Company uses the high-low method to analyze mixed costs. The variable cost per unit is _____.

- A) \$1.31 B) \$1.25 C) \$0.75 D) \$1.35

10) The high-low method can be used to approximate a cost function. A disadvantage of this method is _____.

- A) it is more subjective than account analysis
 B) it makes inefficient use of information because it does not use all the available data
 C) it is more subjective than engineering analysis
 D) it is difficult to apply due to rigorous calculations

11) The least-squares regression method can be used to approximate a cost function. A disadvantage of this method is _____.

- A) it does not use all the available data points
 B) it requires a lot of prior cost data
 C) it is more subjective than engineering analysis
 D) it requires subjective placement of the line

12) The first step in regression analysis is to plot the cost data against each potential cost driver because the plots may show _____.

- A) nonlinear trends in the data B) missing cost data
 C) outliers D) nonlinear trends in the data and outliers

13) The computation for Cost of Goods Manufactured on the income statement is _____. (Assume there are no work-in-process inventories.)

- A) direct materials used plus direct production costs
 B) direct materials used plus direct labor plus direct production costs
 C) direct materials used plus direct labor plus indirect production costs
 D) direct materials used plus direct labor

14) A manufacturing firm typically has _____ inventory account(s).

- A) no B) one C) two D) three

15) The Palin Company manufactures several products. The Palin Company has gathered the following information for the year ended December 31, 2010:

Sales	110,000
Direct materials used	20,800
Indirect production costs fixed	10,400
Indirect production costs variable	6,600
Direct labor fixed	12,300
Direct labor variable	22,300
Selling expenses fixed	33,040
Selling expenses variable	33,440
Finished goods inventory, January 1, 2010	12,000
Finished goods inventory, December 31, 2010	22,000
Work in process inventory, January 1, 2010	0
Work in process inventory, December 31, 2010	0

Requirements:

A) Compute the Cost of Goods Manufactured for the year ended December 31, 2010.

B) Compute the Cost of Goods Sold for the year ended December 31, 2010.

C) Compute the Net Income (Loss) for the year ended December 31, 2010.

16) The following information was obtained from the accounting records of Stevie Nicks Incorporated:

Direct materials purchased	\$80,000
Direct materials used	76,000
Direct manufacturing labor costs	15,000
Indirect manufacturing labor costs	13,000
Selling expenses	16,000
Administrative expenses	22,000
Factory utilities costs	23,000
Rental cost of factory machines	100,000
Work in process inventory, beginning	0
Work in process inventory, end	0
Finished goods inventory, beginning	10,000
Finished goods inventory, end	30,000

What is Cost of Goods Sold?

- A) \$207,000 B) \$231,000 C) \$227,000 D) \$211,000

17) In a merchandising firm, the computation of Cost of Goods Sold does NOT use _____.

- A) purchases of direct materials
B) merchandise inventory, beginning balance
C) merchandise inventory, ending balance
D) purchases of merchandise

18) A company is comparing the cost of two products determined under a traditional costing system and an activity-based costing system. Let's assume the production process is very lengthy and complicated for both products. The following information is obtained:

	<u>Product A</u>	<u>Product B</u>
Cost per unit, traditional costing system	\$3.98	\$10.50
Cost per unit, activity-based costing system	\$4.99	\$2.50

Based on these computations, what can you conclude?

- A) The activity-based costing system is probably more accurate than the other system.
B) The traditional costing system is probably more accurate than the other system.
C) Both costing systems provide accurate measures of cost per unit for each product.
D) Benchmarking should be used.

19) Under absorption costing, all _____ costs are product or inventoriable costs.

- A) direct manufacturing B) indirect manufacturing
C) direct and indirect manufacturing D) selling and administrative

20) The contribution approach to the income statement emphasizes the distinction between _____.

- A) variable and fixed costs B) different business segments
C) value chain functions D) different functional areas in a firm

21) Colorado Company has the following data about its only product:

Direct materials used	\$200,000
Direct labor	80,000
Indirect manufacturing fixed	100,000
Selling and administrative fixed	220,000
Indirect manufacturing variable	20,000
Selling and administrative variable	75,000
Selling price (per unit)	84
Units produced and sold	10,000

Colorado Company uses the absorption approach. What is the product cost per unit?

- A) \$40 B) \$36 C) \$28 D) \$30

22) Wyoming Company has the following data about its only product:

Direct materials used	\$270,000
Direct labor	180,000
Indirect manufacturing fixed	130,000
Selling and administrative fixed	150,000
Indirect manufacturing variable	120,000
Selling and administrative variable	60,000
Selling price (per unit)	99
Units produced and sold	30,000

Wyoming Company uses the absorption approach. What is the operating income?

- A) \$2,120,000 B) \$2,240,000 C) \$2,060,000 D) \$2,970,000

23) Washington Company has the following data about its only product:

Direct materials used	\$200,000
Direct labor	80,000
Indirect manufacturing fixed	100,000
Selling and administrative fixed	300,000
Indirect manufacturing variable	20,000
Selling and administrative variable	60,000
Selling price(per unit)	100
Units produced and sold	10,000

Washington Company uses the absorption approach. What is the gross margin?

- A) \$600,000 B) \$240,000 C) \$660,000 D) \$540,000

24) The absorption costing approach to the income statement is used by companies for external financial reporting.
True/False

25) Company XYZ is a small company with limited expertise with information technology. Company XYZ has a contract with Company ZZ. Company ZZ handles all of Company XYZ's information technology needs. For Company XYZ, this is an example of _____.

- A) joint decision making B) outsourcing
C) joint costs D) technology transfer

26) What is a qualitative factor in a make-or-buy decision?

- A) long-term relationship with supplier B) opportunity costs
C) avoidable costs D) variable manufacturing costs

27) Fixed overhead costs that will continue regardless of a make-or-buy decision are _____ to the make-or-buy decision.

- A) avoidable B) incremental C) relevant D) irrelevant

28) Bird Company manufactures a part for its production cycle. The costs per unit for 38,000 units of the part are as follows:

Direct materials	\$ 3.00
Direct labor	5.00
Variable factory overhead	4.00
Fixed factory overhead	<u>4.00</u>
Total costs	<u>\$ 16.00</u>

The fixed factory overhead costs are unavoidable. Assume no other use for the facilities. What is the highest price Bird Company should pay for the part from an outside supplier?

- A) \$11 B) \$12 C) \$16 D) \$8

29) Goldwater Company manufactures a part for its production cycle. The annual costs per unit for 10,000 units of the part are as follows:

Direct materials	\$ 20.00
Direct labor	15.00
Variable factory overhead	16.00
Fixed factory overhead	<u>10.00</u>
Total costs	<u>\$ 61.00</u>

The fixed factory overhead costs are unavoidable. Olson Company has offered to sell 10,000 units of the same part to Goldwater Company for \$60 per unit. The facilities currently used to make the part could be used to make 10,000 units per year of a new product that has a contribution margin of \$20 per unit. No additional fixed costs would be incurred with the new product. Goldwater Company should _____.

- A) make the part to save \$10,000
 B) make the new product and buy the part to save \$110,000
 C) make the new product and buy the part to save \$90,000
 D) make the part to save \$90,000

30) Fast Company has just decided to outsource the production of a part for a product. Assume Fast Company leaves the area of the manufacturing plant idle where it was producing the outsourced part. It has no alternative uses of the plant. What is the opportunity cost of the idle area of the manufacturing plant to Fast Company?

- A) definitely a negative number
 B) the disposal value of the entire manufacturing plant
 C) zero
 D) none of the above

31) A company is preparing the cash budget. To find the ending cash balance for a month, they should take the beginning cash balance and add _____.

- A) net cash receipts and disbursements and cash increase or decrease from financing
 B) minimum cash balance and cash increase or decrease from financing
 C) excess of cash before financing and net cash receipts and disbursements
 D) excess of cash before financing

32) Goldberg Company is preparing a cash budget for the month of June. The following information is available:

Cash Balance, May 31, 2010	\$ 10,000
Cash collections from customers in June	46,000
Cash paid for merchandise in June	42,000
Paid operating expenses in June	12,000
Purchase furniture for cash in June	3,000
Depreciation expense in June	1,000
Amortization expense in June	1,000

The minimum cash balance desired is \$10,000. What amount of money must be borrowed at June 30, 2010 to meet the minimum cash balance?

A) \$13,000 B) \$11,000 C) \$10,000 D) \$9,000

33) A company is preparing a budgeted balance sheet. The Ending Balance of Cash comes from the _____.

A) the cash collections budget B) the cash budget
C) the purchases budget D) the cash disbursements budget

34) _____ models are mathematical models of the master budget that can react to any set of assumptions about sales, costs and product mix.

A) Strategic B) Operating budget
C) Financial planning D) Long-range

35) The cash budget begins with the ending cash balance from the previous period. True/False

36) Flat Company currently produces cardboard boxes in an automated process. Expected production per month is 40,000 units. The required direct materials cost \$0.30 per unit. Manufacturing fixed overhead costs are \$24,000 per month. The cost driver for manufacturing fixed overhead costs is units of production. In a static budget at 40,000 units, the total fixed cost is _____ per month and the total variable cost is _____ per month.

A) \$24,000; \$6,000 B) \$24,000; \$12,000
C) \$12,000; \$12,000 D) \$12,000; \$6,000

37) A company that has an activity-based costing system with multiple cost drivers will prepare a(n) _____ budget.

A) strategic B) short-range planning
C) activity-based flexible D) financial planning

38) Pizza Company planned to produce 12,000 units. This level of activity required 40 setups at a cost of \$18,000 plus \$500 per setup. Actual production was 10,000 units, requiring 15 setups. Actual setup cost was \$26,000. What is the static budget amount for total setup costs?

A) \$26,000 B) \$25,500 C) \$21,000 D) \$38,000

39) Unfavorable flexible budget variances result from _____.

A) planned output exceeding actual output B) actual output exceeding planned output
C) actual costs exceeding planned costs D) planned costs exceeding actual costs

40) Ben Company planned to produce 12,000 units. This level of production required 20 setups at a cost of \$18,000 plus \$500 per setup. Actual production was 10,000 units, requiring 15 setups. Actual setup cost was \$26,000. What is the static budget variance for setup costs?

- A) \$2,500 Favorable B) \$2,000 Favorable
C) \$2,500 Unfavorable D) \$2,000 Unfavorable

41) Effectiveness is indicated by the _____ variances.

- A) static budget B) flexible budget C) sales activity D) price

42) A five-year MACRS asset that cost \$50,000 was sold at the end of its useful life for \$20,000. The book value of the asset at the time of sale was \$0. The asset had no expected terminal value. The tax rate is 20%. What is the net after-tax cash inflow from the transaction?

- A) \$8,000 B) \$66,000 C) \$56,000 D) \$16,000

43) The cash inflow from the disposal of a long-term asset at a gain is equal to the _____.

- A) amount of the gain plus the tax paid on the gain
B) selling price of asset minus the tax paid on the gain
C) selling price of asset plus the tax paid on the gain
D) amount of the gain

44) An investment of \$180,000 is expected to generate \$100,000 in cost savings annually for three years. Assume straight-line depreciation is used. Ignore income taxes. What is the payback period?

- A) 1.80 years B) 3.00 years C) 0.80 years D) 1.88 years

45) _____ is a capital budgeting model that ignores the time value of money and focuses on the profitability of an investment project.

- A) Accounting rate of return model B) Internal rate of return model
C) Real options model D) Payback model

46) Variable costs of service departments are allocated to user departments using _____ cost rates instead of _____ cost rates.

- A) long-range; short-range B) budgeted; actual
C) actual; budgeted D) short-range; long-range

47) James Company has two production departments called Mixing and Finishing. The maintenance department serves both production departments. Budgeted fixed costs for the maintenance department are \$30,000. Budgeted variable costs for the maintenance department are \$5.00 per labor hour. Actual maintenance department costs are \$36,000 fixed and \$100,000 variable. Other relevant data follow:

	<u>Mixing</u>	<u>Finishing</u>
Capacity available	20,000 labor hours	15,000 labor hours
Capacity used	15,000 labor hours	9,000 labor hours

The amount of variable maintenance department costs allocated to the Mixing Department should be _____.

- A) \$100,000 B) \$48,000 C) \$75,000 D) \$62,500

48) In practice, companies often inappropriately allocate fixed cost pools for service departments to producing departments on the basis of _____ instead of _____.

- A) budgeted costs; actual costs B) actual costs; budgeted costs
C) capacity available; capacity used D) capacity used; capacity available

49) Samuel Company has two production departments called Mixing and Finishing. The maintenance department serves both production departments. Budgeted fixed costs for the maintenance department are \$40,000. Budgeted variable costs for the maintenance department are \$4.00 per labor hour. Other relevant data follow:

	<u>Mixing</u>	<u>Finishing</u>
Capacity available	18,000 labor hours	12,000 labor hours
Capacity used	15,000 labor hours	9,000 labor hours
Actual maintenance department costs:		
Fixed	\$36,000	
Variable	\$100,000	

The amount of fixed maintenance department costs allocated to the Mixing Department should be _____.

- A) \$20,000 B) \$14,000 C) \$24,000 D) \$12,000

50) Allocating fixed costs based on long-range plans may inadvertently result in a tendency of managers to _____.

- A) overestimate planned usage B) underutilize available capacity
C) underestimate planned usage D) overestimate planned costs

51) When allocating service department costs to user departments, fixed costs should be allocated using budgeted cost rates times the actual cost driver level. True/False

52) The two key items in determining the budgeted factory overhead application rate are total budgeted factory overhead costs and _____.

- A) total actual factory overhead costs B) actual amount of the cost driver
C) total estimated factory overhead costs D) budgeted amount of cost driver

53) USC Company has the following information available:

Budgeted factory overhead	\$ 90,000
Actual factory overhead	\$ 80,000
Budgeted direct labor hours	20,000
Actual direct labor hours	21,000

Assume direct labor hours are the cost driver of factory overhead costs. The budgeted factory overhead rate is _____.

- A) \$4.50 per direct labor hour B) \$4.00 per direct labor hour
C) \$3.57 per direct labor hour D) \$3.81 per direct labor hour

54) If a department identifies more than one cost driver for overhead costs, the department ideally should _____.

- A) select a single cost driver
B) create as many cost pools as there are cost drivers
C) put 80 percent of the cost into one pool and 20 percent into a second pool
D) allocate 80 percent of the costs with 20% of the cost drivers

55) To determine the cost of a manufactured product, a normal costing system uses _____.

- A) actual direct material, actual direct labor and actual overhead
- B) applied direct material, applied direct labor and actual overhead
- C) applied direct material, applied direct labor and applied overhead
- D) actual direct materials, actual direct labor and normal applied overhead

56) Vikings Company incurred actual overhead costs of \$297,500 for the year. A budgeted factory overhead rate of 150% of direct labor cost was determined at the beginning of the year. Budgeted factory overhead was \$300,000 and budgeted direct labor cost was \$200,000. Actual direct labor cost was \$205,000 for the year. The factory overhead variance for the year was _____.

- A) \$10,000 overapplied B) \$2,500 overapplied
- C) \$2,500 underapplied D) \$10,000 underapplied

57) Three types of costs are accumulated on job-cost records that include direct materials, _____ and _____.

- A) direct labor; applied factory overhead
- B) direct labor; budgeted factory overhead
- C) variable factory overhead; fixed factory overhead
- D) direct labor; actual factory overhead

58) The _____ account is supported by a file of job-cost records for partially completed jobs.

- A) Direct Materials Inventory B) Work-in-process Inventory
- C) Cost of Goods Sold D) Finished Goods Inventory

59) In job-order costing, a debit to Work-in-process Inventory is used to record _____.

- A) a requisition of direct materials for production area
- B) a sale of merchandise
- C) a purchase of direct materials
- D) the cost of goods completed

60) St. Luke's Hospital uses a job-order costing system for all patients who have surgery. The following information is available:

Budgeted indirect costs pre-operating room	\$ 84,000
Budgeted indirect costs operating room	\$ 66,000
Budgeted indirect costs surgery recovery floor	\$ 600,000
Budgeted nursing hours pre-operating room	4,000
Budgeted nursing hours operating room	1,000
Budgeted nursing hours surgery recovery floor	7,500

The cost driver for all indirect costs is nursing hours. The hospital uses a budgeted rate for indirect costs. The budgeted rate for indirect costs for the pre-operating room is _____.

- A) \$21.00 B) \$80.00 C) \$43.25 D) \$66.00

61) In process costing, a company has some unfinished units at the end of the accounting period. _____ units are the number of completed units that could have been produced from the inputs used to create the unfinished units.

A) Fully-complete B) Equivalent C) Convertible D) Physical

62) During the month of May, Orton Clothing transferred 140,000 shirts to Finished Goods Inventory. There was no beginning work-in-process inventory. The company had 30,000 shirts in process at May 31 and the shirts were 50 percent complete with respect to conversion costs. All direct materials are added at the beginning of the production process. How many shirts were started during May?

A) 170,000 B) 30,000 C) 140,000 D) 110,000

63) The degree of completion for conversion costs depends on what proportion of the total effort needed to complete one unit or one batch has been devoted to units still in process. True/False

64) SSS Company produces calendars in a one-department process. The following data is available for the past month:

Work-in-process inventory, beginning	0
Units started	15,000
Units completed and transferred	12,000
Units in ending inventory	3,000

Direct materials added	\$30,000
Direct labor	\$20,700
Factory overhead costs	\$10,350

The units in process at the end of the month are 100 percent complete with respect to materials and 60 percent complete with respect to conversion costs. What are the total costs to account for? 64) _____

A) \$20,700 B) \$50,700 C) \$30,000 D) \$61,050

65) Whipit Company manufactures tape dispensers. The Assembly Department reported the follow data for the past month:

Units started and completed	70,000
Units started and not complete	10,000
Units in beginning inventory	0
Direct materials costs	\$480,000
Conversion costs	\$240,000

The partially complete units at the end of the month were 100 percent complete with respect to materials and 50 percent complete with respect to conversion costs. The cost of one completed unit in the Assembly Department is _____.

A) \$9.20 B) \$10.29 C) \$9.47 D) \$9.00