

**Chapter 2 An Introduction to Cost Terms and Purposes**

1) Which of the following formulas determine cost of goods sold in a merchandising entity?

- A) Beginning inventory + Purchases + Ending inventory = Cost of goods sold
- B) Beginning inventory + Purchases - Ending inventory = Costs of goods sold
- C) Beginning inventory - Purchases + Ending inventory = Cost of goods sold
- D) Beginning inventory - Ending inventory - Purchases = Cost of goods sold

2) Which of the following formulas determine cost of goods sold in a manufacturing entity?

- A) Beginning work-in-process inventory + Cost of goods manufactured - Ending work-in-process inventory = Cost of goods sold
- B) Beginning work-in-process inventory + Cost of goods manufactured + Ending work-in-process inventory = Cost of goods sold
- C) Cost of goods manufactured - Beginning finished goods inventory - Ending finished goods inventory = Cost of goods sold
- D) Cost of goods manufactured + Beginning finished goods inventory - Ending finished goods inventory = Cost of goods sold

3) Classify the following costs incur in Toyota manufacturing Co. (as direct/indirect and variable/fixed). The cost object is the type of car assembled (Corolla or Yaris). The factory considers cost variability with respect to changes in the number of cars assembled.

Cost Item	D or I	V/ F
A- cost of tires used on Yaris		
B- salary of public relations manager for the plant		
C- annual awards dinner for Corolla supplies		
D- salary of engineer who monitors design change on Yaris		
E- freight costs of Corolla engines shipped from Toyota City, Japan to Fremont, California		
F- electricity costs for the plant (single bill covers entire plant)		
G- wages paid to temporary assembly- line workers hired in periods of high production (paid on hourly basis)		
H- annual fire insurance policy cost for the plant		

4) A company reported revenues of \$375,000, cost of goods sold of \$118,000, selling expenses of \$11,000, and total operating costs of \$70,000. Gross margin for the year is \_\_\_\_\_.

- A) \$257,000    B) \$246,000    C) \$176,000    D) \$252,000

5) Leslie Manufacturing reported the following:

Revenue	\$450,000
Beginning inventory of direct materials, January 1, 2015	20,000
Purchases of direct materials	156,000
Ending inventory of direct materials, December 31, 2015	18,000
Direct manufacturing labor	21,000
Indirect manufacturing costs	42,000
Beginning inventory of finished goods, January 1, 2015	40,000
Cost of goods manufactured	114,000
Ending inventory of finished goods, December 31, 2015	45,000
Operating costs	150,000

What is Leslie's cost of goods sold?

A) \$103,000 B) \$109,000 C) \$112,000 D) \$118,000

What is Leslie's gross margin (or gross profit)?

A) \$103,000 B) \$152,000 C) \$341,000 D) \$317,000

What is Leslie's operating income?

A) \$186,000 B) \$128,000 C) \$177,000 D) \$191,000

6) Helmer Sporting Goods Company manufactured 100,000 units in 2015 and reported the following costs:

Sandpaper	\$ 32,000	Leasing costs-plant	\$ 384,000
Materials handling	320,000	Depreciation-equipment	224,000
Coolants & lubricants	22,400	Property taxes-equipment	32,000
Indirect manufacturing labor	275,200	Fire insurance-equipment	16,000
Direct manufacturing labor	2,176,000	Direct material purchases	3,136,000
Direct materials, 1/1/15	384,000	Direct materials, 12/31/15	275,200
Finished goods, 1/1/15	672,000	Sales revenue	12,800,000
Finished goods, 12/31/15	1,280,000	Sales commissions	640,000
Work-in-process, 1/1/15	96,000	Sales salaries	576,000
Work-in-process, 12/31/15	64,000	Advertising costs	480,000
		Administration costs	800,000

**Required:**

- What is the amount of direct materials used during 2015?
- What manufacturing costs were added to WIP during 2015?
- What is cost of goods manufactured for 2015?
- What is cost of goods sold for 2015?

7) Messenger Manufacturing Company had the following account balances for the quarter ending March 31, unless otherwise noted:

Work-in-process inventory (January 1)	\$ 140,400
Work-in-process inventory (March 31)	171,000
Finished goods inventory (January 1)	540,000
Finished goods inventory (March 31)	510,000
Direct materials used	378,000
Indirect materials used	84,000
Direct manufacturing labor	480,000
Indirect manufacturing labor	186,000
Property taxes on manufacturing plant building	28,800
Salespersons' company vehicle costs	12,000
Depreciation of manufacturing equipment	264,000
Depreciation of office equipment	123,600
Miscellaneous plant overhead	135,000
Plant utilities	92,400
General office expenses	305,400
Marketing distribution costs	30,000

**Required:**

- Prepare a cost of goods manufactured schedule for the quarter.
- Prepare a cost of goods sold schedule for the quarter.

- 8) Conversion costs include \_\_\_\_\_.
- A) direct materials and direct manufacturing labor costs  
 B) direct manufacturing labor and manufacturing overhead costs  
 C) direct materials and manufacturing overhead costs  
 D) only direct materials
- 9) Total manufacturing costs equal \_\_\_\_\_.
- A) direct materials plus prime costs. B) direct materials plus conversion costs  
 C) direct manufacturing labor costs plus sunk costs. D) direct manufacturing labor costs plus conversion costs
- 10) The following information pertains to the Emerald Corp:

Beginning work-in-process inventory	\$ 75,000
Ending work-in-process inventory	85,000
Beginning finished goods inventory	175,000
Ending finished goods inventory	200,000
Cost of goods manufactured	1,200,000

What is cost of goods sold?

- A) \$1,210,000 B) \$1,175,000 C) \$1,185,000 D) \$1,225,000

Answer the following questions using the information below:

Beginning finished goods, 1/1/2015	\$ 92,000	Ending finished goods, 12/31/2015	75,000
Cost of goods sold	300,000	Sales revenue	450,000
Operating expenses	95,000		

- 11) What is the cost of goods manufactured for 2015?  
 A) \$285,000 B) \$277,000 C) \$283,000 D) \$350,000
- 12) What is the gross margin for 2015?  
 A) \$163,000 B) \$177,000 C) \$170,000 D) \$150,000
- 13) What is the operating income for 2015?  
 A) \$75,000 B) \$55,000 C) \$62,000 D) \$68,000
- 14) Flyers Inc., had the following activities during 2015:

Direct materials:			
Beginning inventory	\$ 22,000	Purchases	61,600
Ending inventory	10,800	Direct manufacturing labor	18,000
Manufacturing overhead	11,500	Beginning work-in-process inventory	1,000
Ending work-in-process inventory	3,500	Beginning finished goods inventory	25,000
Ending finished goods inventory	19,000		

**Required:**

- a. What is the cost of direct materials used during 2015?  
 b. What is cost of goods manufactured for 2015?  
 c. What is cost of goods sold for 2015?  
 d. What amount of prime costs was added to production during 2015?  
 e. What amount of conversion costs was added to production during 2015?