

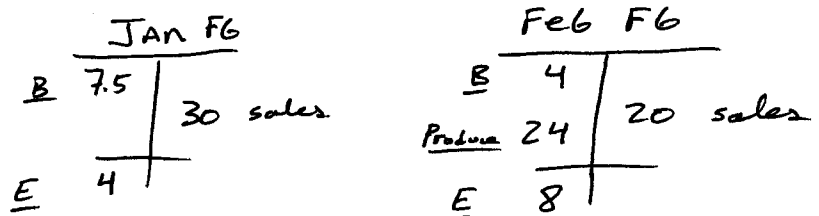
Name: Solution

1. Aces Company budgeted the following sales in units:

January	30,000
February	20,000 × 20% = 4k
March	40,000 × 20% = 8k

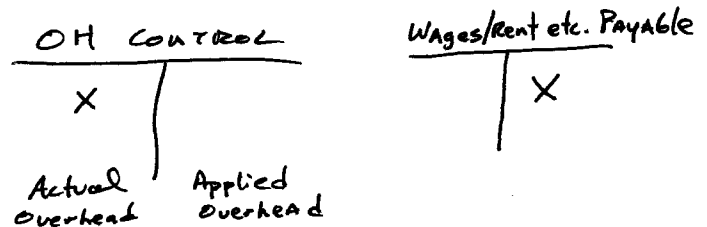
Aces' policy is to have 20% of the following month's sales in inventory. On January 1, inventory equaled 7,500 units. February production in units is:

- a. 20,000.
- b. 28,000.
- c. 24,000.
- d. 26,500.
- e. 40,000.



2. When overhead is debited to Overhead Control, what is a reasonable credit?

- a. Various payable accounts
- b. Raw materials
- c. Supplies
- d. Equity
- e. Work in process inventory



3. Belant Company budgeted 200,000 units for June, 210,000 for July and 300,000 for August. Each unit requires 0.25 direct labor hours. How many direct labor hours are budgeted for August?

- a. 50,000
- b. 5,000
- c. 75,000
- d. 52,500
- e. 300,000

$300,000 \text{ units} \times 0.25 \text{ DL Hr/unit} = 75,000$

4. Which of the following statements is true about overhead?

- a. Overhead costs are not incurred uniformly throughout the year. True
- b. Overhead costs have a definite, identifiable relationship with units produced. False (that's why it's OH)
- c. Low production in one month would give rise to low unit overhead costs. False
- d. Two of the above statements are true. X
- e. None of the above is true. X

5. Galvern Company provided the following data for July:

Direct materials	\$50,000	
Direct labor	\$25,000	
Overhead	\$90,000	
Beginning finished goods	\$15,000	
Ending finished goods	\$34,000	
Production in units (all units started are complete)		10,000

What is the cost of goods sold?

- a. \$165,000
- b. \$146,000
- c. \$214,000
- d. \$184,000
- e. None of the above

		FG Inv	
B	15		
DM	50		146 COGS
DL	25		
OH	90		
G	34		

6. The moving activity has an expected cost of \$160,000. Expected direct labor hours are 40,000, and the expected number of moves is 80,000. The best activity rate for moving is:

- a. \$4 per move
- b. \$1.33 per hour-move
- c. \$4 per hour
- d. \$2 per move
- e. None of the above

$$\frac{\$160,000}{80,000 \text{ moves}} = \$2 \text{ per move}$$

7. Sorrell Company makes all its sales on account. Accounts receivable payment experience is as follows:

Percent paid in the month of sale	30%
Percent paid in the month after the sale	60%
Percent paid in the second month after the sale	8%

Sorrell provided information on sales as follows:

May	\$100,000		
June	\$120,000	$\times 8\%$	= 9,600
July	\$130,000	$\times 60\%$	= 78,000
August (expected)	\$150,000	$\times 30\%$	= 45,000
			132,600

What is budgeted cash to be collected on account for the month of August?

- a. \$45,000
- b. \$132,000
- c. \$132,600
- d. \$150,000
- e. \$54,600

8. Capsaicin Company produces a line of salsas. Capsaicin's estimated production of jars of salsa for the third quarter of the year is as follows:

	Peppers (lbs)
July	80,000 × ¼ = 20,000
August	90,000 × ¼ = 22,500 × 5% = 1,125
September	70,000 × ¼ = 17,500 × 5% = 875

Each jar requires 1/4 pound of peppers. Capsaicin's prefers to buy the freshest peppers, so its policy to have just 5% of the following month's production needs in ending inventory. On July 1, the company had 1,200 pounds of peppers in inventory. Capsaicin's pays \$0.40 per pound of peppers. It buys all peppers on account and typically pays 50% of a month's purchases in that month, and the remaining 50% the following month.

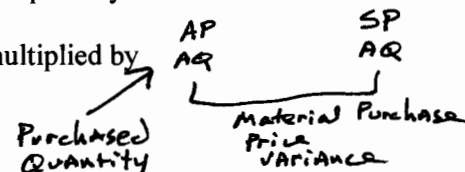
How many pounds of peppers will be purchased during the month of August?

- a. 23,375
- b. 21,125
- c. 19,925
- d. 22,250**
- e. 93,500

July RM Inv		August RM Inv	
B	1,200	B	1,125
	20,000 used	Purchase	22,250
E	1,125		22,500 used
		E	875

9. Which of the following is true concerning the materials price variance?

- a. It is the difference between the actual and standard unit price of an input multiplied by the number of inputs used.
- b. It is the difference between the actual and standard unit price of an output multiplied by the number of inputs used.
- c. It is the difference between the actual and standard unit price of an input multiplied by the number of inputs purchased.**
- d. It is the difference between the actual and standard unit price of an output multiplied by the number of inputs purchased.
- e. None of these are true.



10. Jones Company applies overhead based on direct labor hours. At the beginning of the year, Jones estimates Overhead to be \$480,000, Machine Hours to be 120,000, and Direct Labor to be 80,000. During January, Jones has 6,700 direct labor hours and 11,000 machine hours.

What is the amount of overhead applied for January?

- a. \$40,200**
- b. \$66,000
- c. \$44,000
- d. \$26,800
- e. None of the above

$$\frac{\$480,000}{80,000} = \$6 \text{ per DL Hr} = \text{predetermined OH rate}$$

$$6,700 \text{ DL Hrs} \times \$6 = \$40,200 \text{ Applied}$$

11. On February 1, Job 12 had a beginning balance of \$200. During February, direct materials of \$500 and direct labor of \$200 were added to the job. Overhead is applied to production at a rate of 55% of direct labor. There are 5 units in Job 12.

What is the unit cost?

- a. \$202**
- b. \$1010
- c. \$162
- d. \$810
- e. none of these

Job 12	
B	200
DM	500
DL	200
OH	110
\$ Total	1,010
÷ 5 units	\$ 202

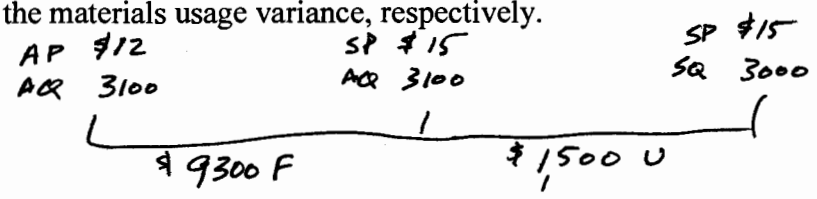
- v2 v3
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12. Which of the following is not true concerning direct materials variances?
- a. The sum of the price and usage variances will add up to the total materials variance only if the materials purchased is equal to the materials used. *True*
 - b. The materials price variance uses the actual quantity of materials purchased rather than the actual quantity of materials used. *True*
 - c. The materials price variance always uses the actual quantity of materials used rather than the actual quantity of materials purchased. *False*
 - d. The materials usage variance uses the actual quantity of materials used. *True*
 - e. Separate materials variances can be computed for each type of material used. *True*

- 16 9
13. Caballero Corporation produces high-quality leather saddles. The company has a standard cost system and has set the following standards for materials and labor:
- | | |
|--------------------------------|-------|
| Leather (20 strips @ \$15) | \$300 |
| Direct labor (15 hours @ \$15) | \$225 |

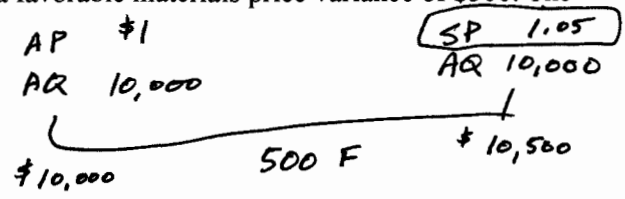
During the year Caballero produced 150 saddles. Actual leather purchased was 3,100 strips, at \$12 per strip. There were no beginning or ending inventories of leather. Actual direct labor was 2,500 hours at \$16 per hour.

Compute the materials price variance and the materials usage variance, respectively.

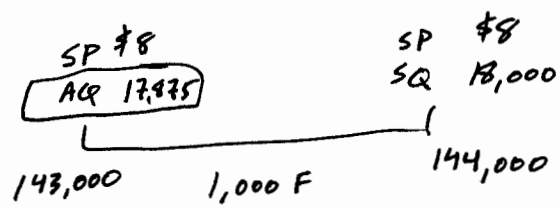
- a. \$ 300 F and \$1,500 U
- b. \$ 300 U and \$1,500 F
- c. \$9,000 F and \$1,200 U
- d. \$9,000 U and \$1,200 F
- e. None of the above



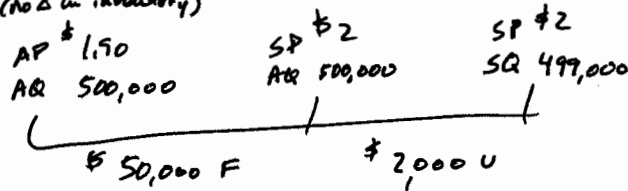
- 17 10
14. During the month of March, Baker's Express purchased 10,000 pounds of flour at \$1 per pound. At the end of March, Baker's Express found that it had a favorable materials price variance of \$500. The standard cost per pound must be
- a. \$0.95
 - b. \$1.00
 - c. \$1.05
 - d. \$1.95
 - e. None of the above



- 18 11
15. During June, Cisco Company produced 12,000 chainsaw blades. The standard quantity of material allowed per unit was 1.5 pounds of steel per blade at a standard cost of \$8 per pound. Cisco determined that it had a favorable materials usage variance of \$1,000 for June. Calculate the actual quantity of materials Cisco used.
- a. 17,875 pounds
 - b. 12,125 pounds
 - c. 11,875 pounds
 - d. 18,125 pounds
 - e. None of the above



16. Perfect Builders makes all sorts of moldings. Its standard quantity of material allowed is 1 foot of wood per 1 foot of molding at a standard price of \$2.00 per foot. During August, it purchased 500,000 feet of wood at a cost of \$1.90 per foot, which produced only 499,000 feet of molding. Calculate the materials price variance and the materials usage variance, respectively. *(No Δ in inventory)*



- a. \$50,000 F and \$2,000 U
- b. \$49,900 U and \$2,000 F
- c. \$50,000 F and \$1,900 U
- d. \$49,900 F and \$1,900 U
- e. None of the above

17. When a job is completed but not sold, the accounts affected are:

- a. Raw Materials and Work-in-Process.
- b. Work-in-Process and Finished Goods.
- c. Work-in-Process and Cost of Goods Sold.
- d. Finished Goods and Cost of Goods Sold.
- e. Finished Goods and Overhead Control.

18. A company has had stable sales and production for several years. Next year, sales are expected to increase by at least 50%. Assuming that the company maintains its policy for desired ending inventories of finished product and direct materials purchases, what will be the likely effect on the desired ending inventory of finished product?

- a. it will increase
- b. it will decrease
- c. it will stay the same
- d. none of these
- e. it will be twice the size of the desired ending inventory of raw materials

19. The order that cost elements flow through accounts until they are recognized as an expense is

- a. Work-in-Process, Finished Goods, Cost of Goods Sold
- b. Finished Goods, Work-in-Process, Cost of Goods Sold
- c. Finished Goods, Cost of Goods Sold, Work-in-Process
- d. Work-in-Process, Cost of Goods Sold, Finished Goods
- e. None of these are correct

20. Smith has applied overhead of \$73,000 and actual overhead of 87,600 for the month of November. It applies overhead based on direct labor hours and those equaled 14,600 in November. Overhead for the year was estimated to be \$900,000. How many direct labor hours were estimated for the year?

- a. 175,200
- b. 180,000
- c. \$5
- d. 150,000
- e. \$6

$$x \cdot 14,600 \text{ DLHrs} = 73,000 \text{ Applied}$$

$$x = \$5 \text{ per DL Hr pre determined OH rate}$$

$$\frac{\$900,000}{\text{est DL Hrs}} = \$5$$

$$\text{est DL Hrs} = 180,000$$

V2 V3
1 17

21. Mitchell's Softball Gloves Company estimated the following at the beginning of the year:

	Assembly Department	Testing Department	Total
Overhead	\$570,000 = \$4 per DL Hr	\$130,000	\$700,000
Direct Labor Hours	142,500	20,500 = \$2 per M Hr	175,000
Machine Hours	32,000	65,000	97,000

Mitchell uses departmental overhead rates. In the assembly department, direct labor hours are used to apply overhead. Machine hours are used to apply overhead in the testing department.

Actual data for August is as follows:

	Assembly Department	Testing Department	Total
Overhead	\$42,000	\$12,000	\$54,000 Actual
Direct Labor Hours	13,500 x \$4 = \$54,000	2,430	15,930
Machine Hours	4,020	11,000 x 2 = \$22,000	15,020

Using Departmental overhead rates, which of the following is correct?

- a. Applied overhead for the assembly department is \$54,000 ✓
- b. Applied overhead for the testing department is \$4,860. ✗
- c. Applied overhead for both departments combined is \$63,720 ✗
- d. Overhead for the assembly department is underapplied. ✗
- e. none of these

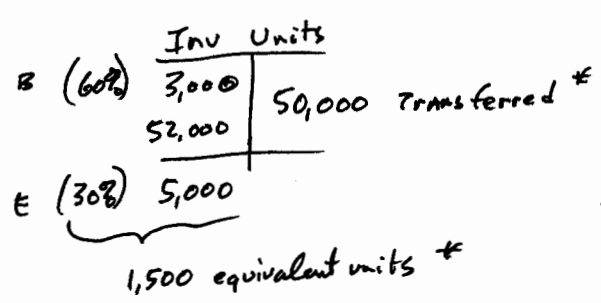
Applied OH
54,000
+ 22,000
76,000

2

18

22. Beginning inventory for the month contained 3,000 units that were 60 percent complete with respect to materials. During the month, 50,000 units were completed and transferred out. Ending inventory contained 5,000 units, 30 percent complete with respect to materials. The weighted average equivalent units of production for materials for the month would be

- a. 50,000
- b. 51,500
- c. 50,300
- d. 49,500
- e. None of the above



∴ * = 51,500

3

19

23. Using only unit-based activity drivers to assign non-unit-related overhead costs can cause:

- a. distorted product costs ✓
- b. product diversity ✗
- c. efficiency ✗
- d. activity sharing ✗
- e. none of these ✗

V2 V3
21 20

24. Producing 10,000 units of a cell phone requires \$300,000 of prime costs (prime costs = DL + DM), uses 2,000 machine hours, and takes 1,200 setup hours. The activity rates are \$40 per machine hour and \$100 per setup hour. What is the unit cost of a cell phone?

- a. \$60
- b. \$40
- c. \$50
- d. \$100
- e. \$30

$$\begin{aligned}
 & 300,000 \\
 & + (2,000 \times \$40) \\
 & + (1,200 \times \$100) \\
 \hline
 & 500,000 \div 10,000 \text{ units} = \$50 \text{ per unit}
 \end{aligned}$$

22 21

25. Rizzo Manufacturing produces two types of cameras: 35mm and digital. The cameras are produced using one continuous process. Four activities have been identified: machining, setups, receiving, and packing. Resource drivers have been used to assign costs to each activity. The overhead activities, their costs, and the other related data are as follows:

Product	Machine Hours	Setups	Receiving Orders	Packing Orders
35mm	10,000	100	200	400
Digital	10,000	250	800	2,000
Costs	\$60,000	\$40,000	\$8,000	\$24,000

Calculate the total overhead assigned to the 35mm cameras using only machine hours to calculate a plant-wide rate.

- a. \$132,000
- b. \$72,000
- c. \$60,000
- d. \$75,000
- e. \$66,000

$$\begin{aligned}
 \Sigma \text{ Costs} &= \$132,000 \quad \leftarrow \frac{1}{2} = 66,000 \\
 &\div 20,000 \text{ Machine Hrs} \\
 &= \$6.60 \text{ per MHR} \\
 &\times 10,000 \text{ 35mm} \\
 &= \$66,000
 \end{aligned}$$