

**Solution Manual for Horngrens Accounting The Managerial Chapters 10th  
Edition Nobles Mattison Matsumura 0133117715 9780133117714**

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## **Chapter 18**

### **Introduction to Managerial Accounting**

#### *Review Questions*

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1. The primary purpose of managerial accounting is to provide information to help managers plan and control operations.
2. Planning means choosing goals and deciding how to achieve them, whereas, controlling means implementing the plans and evaluating operations by comparing actual results to the budget.
3. Financial accounting and managerial accounting differ on the following 6 dimensions: (1) primary users, (2) purpose of information, (3) focus and time dimension of the information, (4) rules and restrictions, (5) scope of information, and (6) behavioral.
4. Management accountability is the manager's responsibility to the various stakeholders of the company. Stakeholders have an interest of some sort in the company, and include customers, creditors, suppliers, employees, and investors. Managerial accounting provides information to help managers make wise decisions, effectively manage the resources of the company, evaluate operations, plan, and control. These things are requisite to meeting responsibilities to the company's stakeholders. For example: Making timely payments to suppliers, providing a return on investors' investment, repaying creditors, providing a safe work environment, and providing products that are safe and defect-free.

5. The four IMA standards of ethical practice and a description of each follow.

I. Competence.

- Maintain an appropriate level of professional expertise.
- Perform professional duties in accordance with relevant laws, regulations, and technical standards.
- Provide decision support information and recommendations that are accurate, clear, concise, and timely.
- Recognize and communicate professional limitations or other constraints that preclude responsible judgment or successful performance of an activity.

II. Confidentiality.

- Keep information confidential except when disclosure is authorized or legally required.
- Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates' activities to ensure compliance.
- Refrain from using confidential information for unethical or illegal advantage.

## 5., cont.

### III. Integrity.

- Mitigate actual conflicts of interest, regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
- Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
- Abstain from engaging in or supporting any activity that might discredit the profession.

### IV. Credibility.

- Communicate information fairly and objectively.
- Disclose all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations.
- Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

6. Service companies sell time, skills, and knowledge. They seek to provide services that are high quality with reasonable prices and timely delivery. Examples of service companies include phone service companies, banks, cleaning service companies, accounting firms, law firms, medical physicians, and online auction services.
7. Merchandising companies resell products they buy from suppliers. Merchandisers keep an inventory of products, and managers are accountable for the purchasing, storage, and sale of the products. Examples of merchandising companies include toy stores, grocery stores, and clothing stores.
8. Product costs are all costs of a product that GAAP requires companies to treat as an asset for external financial reporting. These costs are recorded as an asset and not expensed until the product is sold. Product costs include direct materials, direct labor, and manufacturing overhead.
9. Period costs are operating costs that are expensed in the same accounting period in which they are incurred, whereas product costs are recorded as an asset and not expensed until the accounting period in which the product is sold. Period costs are all costs not considered product costs. On the income statement, Cost of Goods Sold (a product cost) is subtracted from Sales Revenue to compute gross profit. Period costs are subtracted from gross profit to determine operating income.

**10.** Merchandising companies resell products they previously bought from suppliers, whereas manufacturing companies use labor, equipment, supplies, and facilities to convert raw materials into new finished products. In contrast to merchandising companies, manufacturing companies have a broad range of production activities that require tracking costs on three kinds of inventory.

**11.** The three inventory accounts used by manufacturing companies are Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.

Raw Materials Inventory includes materials used to manufacture a product. Work-in-Process Inventory includes goods that have been started in the manufacturing process but are not yet complete. Finished Goods Inventory includes completed goods that have not yet been sold.

**12.** For a manufacturing company, the activity in the Finished Goods Inventory account provides the information for determining Cost of Goods Sold. A manufacturing company calculates Cost of Goods Sold as Beginning Finished Goods Inventory + Cost of Goods Manufactured – Ending Finished Good Inventory.

For a merchandising company, the activity in the Merchandise Inventory account provides the information for determining Cost of Goods Sold. A merchandising company calculates Cost of Goods Sold as Beginning Merchandise Inventory + Purchases and Freight In – Ending Merchandise Inventory.

**13.** A direct cost is a cost that can be easily and cost-effectively traced to a cost object (which is anything for which managers want a separate measurement of cost). An indirect cost is a cost that cannot be easily or cost-effectively traced to a cost object.

**14.** The three product costs for a manufacturing company are direct materials, direct labor, and manufacturing overhead. Direct materials are materials that become a physical part of a finished product and whose costs are easily traceable to the finished product. Direct labor is the labor cost of the employees who convert materials into finished products. Manufacturing overhead includes all manufacturing costs except direct materials and direct labor, such as indirect materials, indirect labor, depreciation, rent, and property taxes.

**15.** Examples of manufacturing overhead include costs of indirect materials, indirect labor, repair and maintenance, utilities, rent, insurance, property taxes, manufacturing plant managers' salaries, and depreciation on manufacturing buildings and equipment.

**16.** Prime costs are direct materials plus direct labor. Conversion costs are direct labor plus manufacturing overhead. Note that direct labor is classified as both a prime cost and a conversion cost.

- 17.** Cost of Goods Manufactured is calculated as Beginning Work-in-Process Inventory + Direct Materials Used + Direct Labor + Manufacturing Overhead – Ending Work-in-Process Inventory.
- 18.** A manufacturing company calculates unit product cost as Cost of Goods Manufactured / Total number of units produced.
- 19.** A service company calculates unit cost per service as Total Costs / Total number of services provided.
- 20.** A merchandising company calculates unit cost per item as Total Cost of Goods Sold / Total number of items sold.

## ***Short Exercises***

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### **S18-1**

- a. FA
- b. MA
- c. MA
- d. FA
- e. FA

### **S18-2**

- 1. e.
- 2. f.
- 3. d.
- 4. a.
- 5. b.

### **S18-3**

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

### **S18-4**

- a. Confidentiality
- b. Integrity
- c. Competence (skipping the session); Integrity (company-paid conference)
- d. Competence
- e. Credibility; Integrity

**S18-5**

|                                  |              |                  |
|----------------------------------|--------------|------------------|
| Beginning inventory              |              | \$ 7,900         |
| Purchases                        | \$ 39,000    |                  |
| Freight in                       | <u>2,900</u> | <u>41,900</u>    |
| Cost of goods available for sale |              | 49,800           |
| Ending inventory                 |              | <u>(4,900)</u>   |
| Cost of goods sold               |              | <u>\$ 44,900</u> |

**S18-6**

|     | <u>Solutions:</u> | <u>Calculations:</u>            |
|-----|-------------------|---------------------------------|
| (a) | \$12,900          | \$60,900 [b, below] - \$48,000  |
| (b) | \$60,900          | \$59,000 + \$1,900              |
| (c) | \$29,000          | \$42,000 - \$13,000             |
| (d) | \$199,100         | \$113,000 + \$86,100 [f, below] |
| (e) | \$59,000          | \$88,000 - \$29,000             |
| (f) | \$86,100          | \$88,000 - \$1,900              |
| (g) | \$29,000          | \$113,000 - \$84,000            |

Order of calculations:

Fit Apparel: (b), (a), (c)

Jones, Inc.: (e), (f), (d), and (g)

**S18-7**

- a. 2
- b. 4
- c. 1
- d. 5
- e. 4
- f. 5
- g. 3

**S18-8**

|                                 |    |               |  |
|---------------------------------|----|---------------|--|
| Glue for frames                 | \$ | 350           |  |
| Plant depreciation              |    | 9,000         |  |
| Plant foreman's salary          |    | 5,000         |  |
| Plant janitor's wages           |    | 1,000         |  |
| Oil for manufacturing equipment |    | <u>200</u>    |  |
| Total manufacturing overhead    | \$ | <u>15,550</u> |  |

**S18-9**

- a. Period cost
- b. Product cost
- c. Product cost
- d. Period cost
- e. Product cost
- f. Period cost
- g. Product cost
- h. Product cost
- i. Period cost

**S18-10**

|                                   |            |       |                |
|-----------------------------------|------------|-------|----------------|
| Beginning Raw Materials Inventory |            | \$    | 4,000          |
| Purchases of Raw Materials        | \$         | 6,400 |                |
| Freight In                        | <u>200</u> |       | <u>6,600</u>   |
| Raw Materials Available for Use   |            |       | 10,600         |
| Ending Raw Materials Inventory    |            |       | <u>(1,500)</u> |
| Direct Materials Used             |            | \$    | <u>9,100</u>   |



**S18-11**

|  |               |                  |
|--|---------------|------------------|
| Beginning Work-in-Process Inventory                |               | \$ 5,000         |
| Direct Materials Used                              | \$ 10,000     |                  |
| Direct Labor                                       | 7,000         |                  |
| Manufacturing Overhead                             | <u>21,000</u> |                  |
| Total Manufacturing Costs Incurred during the Year |               | <u>38,000</u>    |
| Total Manufacturing Costs to Account For           |               | 43,000           |
| Ending Work-in-Process Inventory                   |               | <u>(3,000)</u>   |
| Cost of Goods Manufactured                         |               | <u>\$ 40,000</u> |

**S18-12**

|                                    |                   |
|------------------------------------|-------------------|
| Beginning Finished Goods Inventory | \$ 26,000         |
| Cost of Goods Manufactured         | <u>156,000</u>    |
| Cost of Goods Available for Sale   | 182,000           |
| Ending Finished Goods Inventory    | <u>(18,000)</u>   |
| Cost of Goods Sold                 | <u>\$ 164,000</u> |

**S18-13**

$$\begin{aligned}
 \text{Cost of one haircut} &= \text{Total operating costs} / \text{Total number of haircuts} \\
 &= [\$805 + \$1,150 + \$184 + \$46] / 230 \text{ haircuts} \\
 &= \$2,185 / 230 \text{ haircuts} \\
 &= \$9.50 \text{ per haircut}
 \end{aligned}$$

## ***Exercises***

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### **E18-14**

- a. Financial
- b. Creditors and Stockholders
- c. Controlling
- d. Managers
- e. Financial
- f. Managerial
- g. Planning

### **E18-15**

- a. JIT
- b. TQM
- c. ERP
- d. E-Commerce

### **E18-16**

Students' responses will vary. Illustrative answers follow.

#### **Requirement 1**

A new employee who has engaged in this behavior is unlikely to become a valued and trusted employee. This type of behavior is unethical.

As controller, Sue Peters probably hired Dale, and she is also responsible for the lack of controls that permitted a new employee to commit this theft. She will need to supervise the next bookkeeper more carefully.

#### **Requirement 2**

Being a new employee, Sue Peters may want to discuss the situation with the company's president. Unless Sue can obtain additional information, she may want to indicate to Dale that this behavior will not be tolerated in the future. Sue should establish better controls and closer supervision.

**E18-17**

Company A is a manufacturing company. Company B is a service company. Company C is a merchandising company.

**E18-18**

Company A (all amounts in millions):

|                          |          |             |
|--------------------------|----------|-------------|
| Sales Revenue            |          | \$ 37       |
| Cost of Goods Sold       |          | <u>22</u>   |
| Gross Profit             |          | 15          |
| Operating Expenses:      |          |             |
| Selling Expenses         | \$ 5     |             |
| Administrative Expenses  | <u>4</u> |             |
| Total Operating Expenses |          | <u>9</u>    |
| Operating Income         |          | <u>\$ 6</u> |

Company B (all amounts in millions):

|                  |           |             |
|------------------|-----------|-------------|
| Service Revenue  |           | \$ 40       |
| Expenses:        |           |             |
| Wages Expense    | \$ 19     |             |
| Rent Expense     | <u>12</u> |             |
| Total Expenses   |           | <u>31</u>   |
| Operating Income |           | <u>\$ 9</u> |

Company C (all amounts in millions):

|                          |          |             |
|--------------------------|----------|-------------|
| Sales Revenue            |          | \$ 35       |
| Cost of Goods Sold       |          | <u>20</u>   |
| Gross Profit             |          | 15          |
| Operating Expenses:      |          |             |
| Selling Expenses         | \$ 3     |             |
| Administrative Expenses  | <u>5</u> |             |
| Total Operating Expenses |          | <u>8</u>    |
| Operating Income         |          | <u>\$ 7</u> |

**E18-19**

Company A (all amounts in millions):

|                           |              |
|---------------------------|--------------|
| Cash                      | \$ 8         |
| Accounts Receivable       | 12           |
| Raw Materials Inventory   | 3            |
| Work-in-Process Inventory | 4            |
| Finished Goods Inventory  | <u>6</u>     |
| Total current assets      | <u>\$ 33</u> |

Company B (all amounts in millions):

|                      |              |
|----------------------|--------------|
| Cash                 | \$ 15        |
| Accounts Receivable  | <u>8</u>     |
| Total current assets | <u>\$ 23</u> |

Company C (all amounts in millions):

|                       |              |
|-----------------------|--------------|
| Cash                  | \$ 12        |
| Accounts Receivable   | 15           |
| Merchandise Inventory | <u>10</u>    |
| Total current assets  | <u>\$ 37</u> |

**E18-20**

| Cost                                | Product |    |     | Product |            | Period  |       |
|-------------------------------------|---------|----|-----|---------|------------|---------|-------|
|                                     | DM      | DL | MOH | Prime   | Conversion | Selling | Admin |
| a. <i>Metal used for rims</i>       | X       |    |     | X       |            |         |       |
| b. Sales salaries                   |         |    |     |         |            | X       |       |
| c. Rent on factory                  |         |    | X   |         | X          |         |       |
| d. Wages of assembly workers        |         | X  |     | X       | X          |         |       |
| e. Salary of production supervisor  |         |    | X   |         | X          |         |       |
| f. Depreciation on office equipment |         |    |     |         |            |         | X     |
| g. Salary of CEO                    |         |    |     |         |            |         | X     |
| h. Delivery expense                 |         |    |     |         |            | X       |       |

**E18-21**

(a)

|  |                  |
|--|------------------|
| Total Manufacturing Costs to Account For           | \$ 55,800        |
| Total Manufacturing Costs Incurred during the Year | <u>(45,300)</u>  |
| Beginning Work-in-Process Inventory                | <u>\$ 10,500</u> |

(b)

|  |                  |
|--|------------------|
| Total Manufacturing Costs Incurred during the Year | \$ 45,300        |
| Direct Materials Used                              | (14,200)         |
| Direct Labor                                       | <u>(10,800)</u>  |
| Manufacturing Overhead                             | <u>\$ 20,300</u> |

(c)

|  |                 |
|--|-----------------|
| Total Manufacturing Costs to Account For | \$ 55,800       |
| Cost of Goods Manufactured               | <u>(51,200)</u> |
| Ending Work-in-Process Inventory         | <u>\$ 4,600</u> |

(d)

|  |                  |
|--|------------------|
| Direct Materials Used                              | \$ 35,200        |
| Direct Labor                                       | 20,700           |
| Manufacturing Overhead                             | <u>10,500</u>    |
| Total Manufacturing Costs Incurred during the Year | <u>\$ 66,400</u> |

(e)

|   |                   |
|---|-------------------|
| Beginning Work-in-Process Inventory                           | \$ 40,500         |
| Total Manufacturing Costs Incurred during the Year [d, above] | <u>66,400</u>     |
| Total Manufacturing Costs to Account For                      | <u>\$ 106,900</u> |

(f)

|   |                  |
|---|------------------|
| Total Manufacturing Costs to Account For [e, above] | \$ 106,900       |
| Ending Work-in-Process Inventory                    | <u>(25,900)</u>  |
| Cost of Goods Manufactured                          | <u>\$ 81,000</u> |

**E18-21, cont.**

(g)

|   |                 |
|---|-----------------|
| Total Manufacturing Costs Incurred during the Year [h, below] | \$ 5,200        |
| Direct Labor  | (1,400)         |
| Manufacturing Overhead  | <u>(300)</u>    |
| Direct Materials Used   | <u>\$ 3,500</u> |

(h)

|  |                 |
|--|-----------------|
| Total Manufacturing Costs to Account For           | \$ 7,400        |
| Beginning Work-in-Process Inventory                | <u>(2,200)</u>  |
| Total Manufacturing Costs Incurred During the Year | <u>\$ 5,200</u> |

(i)

|  |                 |
|--|-----------------|
| Total Manufacturing Costs to Account For | \$ 7,400        |
| Ending Work-in-Process Inventory         | <u>(2,500)</u>  |
| Cost of Goods Manufactured               | <u>\$ 4,900</u> |

**E18-22****Requirement 1**

| <b>KNIGHT CORP.</b><br><b>Schedule of Cost of Goods Manufactured</b><br><b>Year Ended December 31, 2014</b> |                 |                   |
|---|-----------------|-------------------|
| Beginning Work-in-Process Inventory   |                 | \$ 103,000        |
| Direct Materials Used:  |                 |                   |
| Beginning Raw Materials Inventory   | \$ 56,000       |                   |
| Purchases of Raw Materials  | <u>159,000</u>  |                   |
| Raw Materials Available for Use   | 215,000         |                   |
| Ending Raw Materials Inventory  | <u>(23,000)</u> |                   |
| Direct Materials Used   |                 | \$ 192,000        |
| Direct Labor  |                 | 122,000           |
| Manufacturing Overhead:   |                 |                   |
| Depreciation, plant building and equipment  | 16,000          |                   |
| Insurance on plant  | 22,000          |                   |
| Repairs and maintenance—plant   | 8,000           |                   |
| Indirect labor  | <u>32,000</u>   |                   |
| Total Manufacturing Overhead  |                 | <u>78,000</u>     |
| Total Manufacturing Costs Incurred During the Year  |                 | <u>392,000</u>    |
| Total Manufacturing Costs to Account For  |                 | 495,000           |
| Ending Work-in-Process Inventory  |                 | <u>(63,000)</u>   |
| Cost of Goods Manufactured  |                 | <u>\$ 432,000</u> |

**Requirement 2**

$$\begin{aligned}
 \text{Unit product cost} &= \text{Cost of goods manufactured} / \text{Total units produced} \\
 &= \$432,000 / 2,160 \text{ lamps} \\
 &= \$200 \text{ per lamp}
 \end{aligned}$$



**E18-23**

|  |                 |                   |
|--|-----------------|-------------------|
| Beginning Work-in-Process Inventory                |                 | \$ 44,000         |
| Direct Materials Used:                             |                 |                   |
| Beginning Raw Materials Inventory                  | \$ 29,000       |                   |
| Purchases of Raw Materials                         | <u>77,000</u>   |                   |
| Raw Materials Available for Use                    | 106,000         |                   |
| Ending Raw Materials Inventory                     | <u>(32,000)</u> |                   |
| Direct Materials Used                              |                 | \$ 74,000         |
| Direct Labor                                       |                 | 87,000            |
| Manufacturing Overhead                             |                 | <u>45,000</u>     |
| Total Manufacturing Costs Incurred During the Year |                 | <u>206,000</u>    |
| Total Manufacturing Costs to Account For           |                 | 250,000           |
| Ending Work-in-Process Inventory                   |                 | <u>(37,000)</u>   |
| Cost of Goods Manufactured                         |                 | <u>\$ 213,000</u> |

|                                    |                   |         |
|------------------------------------|-------------------|---------|
| Beginning Finished Goods Inventory | \$ 19,000         |         |
| Cost of Goods Manufactured         | <u>213,000</u>    | [above] |
| Cost of Goods Available for Sale   | 232,000           |         |
| Ending Finished Goods Inventory    | <u>(24,000)</u>   |         |
| Cost of Goods Sold                 | <u>\$ 208,000</u> |         |

**E18-24****Requirement 1**

|                                |              |                 |
|--------------------------------|--------------|-----------------|
| Grooming Revenue               |              | \$ 16,300       |
| Expenses:                      |              |                 |
| Wages Expense                  | \$ 3,900     |                 |
| Grooming Supplies Expense      | 1,625        |                 |
| Building Rent Expense          | 1,300        |                 |
| Utilities Expense              | 325          |                 |
| Depreciation Expense—Equipment | 130          |                 |
| Total Expenses                 | <u>7,280</u> |                 |
| Net Income                     |              | <u>\$ 9,020</u> |

**Requirement 2**

Cost of Service to  
Groom One Dog = Total expenses / Total number of dogs groomed

= \$7,280 / 650 dogs

= \$11.20 per dog

**E18-25****Requirement 1**

|                                     |                 |                  |
|-------------------------------------|-----------------|------------------|
| Sales Revenue                       |                 | \$ 138,000       |
| Cost of Goods Sold:                 |                 |                  |
| Beginning Merchandise Inventory     | \$ 7,500        |                  |
| Purchases                           | <u>78,000</u>   |                  |
| Cost of Goods Available for Sale    | 85,500          |                  |
| Ending Merchandise Inventory        | <u>(12,360)</u> |                  |
| Cost of Goods Sold                  |                 | <u>73,140</u>    |
| Gross Profit                        |                 | 64,860           |
| Selling and Administrative Expenses |                 | <u>49,680</u>    |
| Operating Income                    |                 | <u>\$ 15,180</u> |

**Requirement 2**

Unit cost for one brush = Cost of goods sold / Total units sold

= \$73,140 / 6,000 brushes

= \$12.19 per brush

## ***Problems (Group A)***

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### **P18-26A**

Students' responses will vary. Illustrative answers follow.

#### **Requirement 1**

- a. If the goods have been received, postponing recording of the purchase understates liabilities. This is unethical and inconsistent with the IMA standards even if the supplier agrees to delay billing.
- b. The software has not been sold. Therefore, it would be inconsistent with the IMA standards to record it as sales.
- c. Delaying year-end closing incorrectly records next year's sales in this year's sales. This is unethical and inconsistent with the IMA standards.
- d. The appropriate allowance for bad debts is a difficult judgment. The decision should not be driven by the desire to meet a profit goal. It should be based on the likelihood that the company will not collect the debts. We cannot determine this without more information. However, since the company emphasizes earnings growth, which can lead to sales to customers with weaker credit records, reducing the allowance seems questionable. It is not clear whether this strategy is inconsistent with the IMA standards.
- e. If the maintenance is postponed, there is no transaction to record. This strategy is beyond the responsibility of the controller, so it does not violate IMA standards.

**P18-26A, cont.**  
**Requirement 2**

Management accountability is management's responsibility to the various stakeholders of the company. Each group of stakeholders has an interest of some sort in the business. Stakeholders include suppliers, employees, customers, vendors, investors, creditors, governments, and communities. Managers are accountable to the stakeholders and have a responsibility to wisely manage the company's resources.

Managers provide information about their decisions and the results of those decisions to the stakeholders. Financial accounting provides financial statements that report results of operations, financial position, and cash flows both to managers and to external stakeholders. Managerial accounting provides the information needed to plan and control operations. Managers are responsible to many stakeholders, so they must plan and control operations carefully. Making decisions that cause the company to decline will affect many different groups, from investors to employees, and may have an economic impact on the entire community.

The inconsistencies noted for Smart Software, Inc. particularly impact the financial statement information provided by financial accounting to external stakeholders.

**Requirement 3**

The controller should resist attempts to implement a, b, and c and should gather more information about d. If the President ignores Wallace, then Wallace needs to consider if she wants to work for a company that engages in unethical behavior.

**P18-27A****Requirement 1**

Period costs are operating costs that are expensed in the accounting period in which they are in-curred.

Product costs are all costs of a product that GAAP requires companies to treat as an asset for external financial reporting. These costs are recorded as an asset (inventory) on the balance sheet until the asset is sold. The cost is then transferred to an expense account (Cost of Goods Sold) on the income statement. Product costs include direct materials, direct labor, and manufacturing overhead.

On the income statement, Cost of Goods Sold (product cost) is subtracted from Sales Revenue to determine gross profit. The period costs are then subtracted to determine operating income.

**Requirement 2**

| Cost:   | Period Cost | Product Cost     |              |                        |
|---|-------------|------------------|--------------|------------------------|
|   |             | Direct Materials | Direct Labor | Manufacturing Overhead |
| Shaft and handle of weed trimmer                                  |             | X                |              |                        |
| Motor of weed trimmer   |             | X                |              |                        |
| Factory labor for workers assembling weed trimmers                |             |                  | X            |                        |
| Nylon thread used by the weed trimmer (not traced to the product) |             |                  |              | X                      |
| Glue to hold housing together                                     |             |                  |              | X                      |
| Plant janitorial wages  |             |                  |              | X                      |
| Depreciation on factory equipment                                 |             |                  |              | X                      |
| Rent on plant   |             |                  |              | X                      |
| Sales commissions   | X           |                  |              |                        |
| Administrative salaries   | X           |                  |              |                        |
| Plant utilities   |             |                  |              | X                      |
| Shipping costs to deliver finished weed trimmers to customers     | X           |                  |              |                        |

**P18-28A****Requirement 1**

Service companies sell services rather than products. They sell time, skills, and knowledge. Merchandising companies resell products previously bought from suppliers. Manufacturing companies use labor, equipment, supplies, and facilities to convert raw materials into new finished products.

**Requirement 2**

Company A is a merchandising company. Company B is a manufacturing company. The company types can be determined by the account names in the ledger.

**Requirement 3**

Company A:

|                                  |                   |
|----------------------------------|-------------------|
| Beginning Merchandise Inventory  | \$ 10,000         |
| Purchases                        | <u>156,000</u>    |
| Cost of Goods Available for Sale | 166,000           |
| Ending Merchandise Inventory     | <u>(12,500)</u>   |
| Cost of Goods Sold               | <u>\$ 153,500</u> |

Company B:

|                                    |                   |
|------------------------------------|-------------------|
| Beginning Finished Goods Inventory | \$ 15,500         |
| Cost of Goods Manufactured         | <u>212,500</u>    |
| Cost of Goods Available for Sale   | 228,000           |
| Ending Finished Goods Inventory    | <u>(11,750)</u>   |
| Cost of Goods Sold                 | <u>\$ 216,250</u> |

**P18-29A**  
**Requirement 1**

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**THE WINDSHIELD PEOPLE**  
**Income Statement**  
**Month Ended February 28, 2014**

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|   |              |                 |
|---|--------------|-----------------|
| Revenues:                                   |              |                 |
| Sales Revenue                               |              | \$ 26,000       |
| Expenses:                                   |              |                 |
| Salaries and Wages Expense                  | \$ 9,000     |                 |
| Materials Expense                           | 4,900        |                 |
| Depreciation Expense—Truck                  | 250          |                 |
| Depreciation Expense—Building and Equipment | 800          |                 |
| Supplies Expense                            | 600          |                 |
| Utilities Expense                           | <u>2,130</u> |                 |
| Total Expenses                              |              | <u>17,680</u>   |
| Net Income                                  |              | <u>\$ 8,320</u> |

---

**Requirement 2**

$$\begin{aligned}\text{Per unit cost} &= \text{Total expenses} / \text{Total windshields repaired} \\ &= \$17,680 / 500 \text{ windshields} \\ &= \$35.36 \text{ per windshield}\end{aligned}$$

**Requirement 3**

Yes. The actual unit cost per windshield of \$35.36 is less than \$50.

**P18-30A**  
**Requirement 1**

---

**CHARLIE'S PETS**  
**Income Statement**  
**Year Ended December 31, 2014**

---

|                                  |                  |
|----------------------------------|------------------|
| Revenues:                        |                  |
| Sales Revenue                    | \$ 57,000        |
| Cost of Goods Sold:              |                  |
| Beginning Merchandise Inventory  | \$ 15,100        |
| Purchases of Merchandise         | <u>27,000</u>    |
| Cost of Goods Available for Sale | 42,100           |
| Ending Merchandise Inventory     | <u>(10,200)</u>  |
| Cost of Goods Sold               | <u>31,900</u>    |
| Gross Profit                     | 25,100           |
| Expenses:                        |                  |
| Utilities Expense                | 3,900            |
| Rent Expense                     | 4,100            |
| Sales Commission Expense         | <u>2,150</u>     |
| Total Expenses                   | <u>10,150</u>    |
| Net Income                       | <u>\$ 14,950</u> |

---

**Requirement 2**

$$\begin{aligned}\text{Unit cost} &= \text{Cost of goods sold} / \text{Total units sold} \\ &= \$31,900 / 4,250 \text{ units} \\ &= \$7.51 \text{ per unit}\end{aligned}$$



**P18-31A**  
**Requirement 1**

---

**FIDO TREATS**  
**Schedule of Cost of Goods Manufactured**  
**Year Ended December 31, 2014**

---

|  |                |                  |
|--|----------------|------------------|
| Beginning Work-in-Process Inventory                |                | \$ 0             |
| Direct Materials Used:                             |                |                  |
| Beginning Raw Materials Inventory                  | \$ 13,400      |                  |
| Purchases of Raw Materials                         | <u>33,000</u>  |                  |
| Raw Materials Available for Use                    | 46,400         |                  |
| Ending Raw Materials Inventory                     | <u>(9,500)</u> |                  |
| Direct Materials Used                              |                | \$ 36,900        |
| Direct Labor                                       |                | 22,000           |
| Manufacturing Overhead:                            |                |                  |
| Plant janitorial services                          | 800            |                  |
| Utilities for plant                                | 1,600          |                  |
| Rent on plant                                      | <u>13,000</u>  |                  |
| Total Manufacturing Overhead                       |                | <u>15,400</u>    |
| Total Manufacturing Costs Incurred during the Year |                | <u>74,300</u>    |
| Total Manufacturing Costs to Account For           |                | 74,300           |
| Ending Work-in-Process Inventory                   |                | <u>(2,000)</u>   |
| Cost of Goods Manufactured                         |                | <u>\$ 72,300</u> |

---

**P18-31A, cont.**  
**Requirement 2**

---

**FIDO TREATS**  
**Income Statement**  
**Year Ended December 31, 2014**

---

|                                    |                |                  |
|------------------------------------|----------------|------------------|
| Revenues:                          |                |                  |
| Sales Revenue                      |                | \$ 109,000       |
| Cost of Goods Sold:                |                |                  |
| Beginning Finished Goods Inventory | \$ 0           |                  |
| Cost of Goods Manufactured*        | <u>72,300</u>  |                  |
| Cost of Goods Available for Sale   | 72,300         |                  |
| Ending Finished Goods Inventory    | <u>(5,300)</u> |                  |
| Cost of Goods Sold                 |                | <u>67,000</u>    |
| Gross Profit                       |                | 42,000           |
| Expenses:                          |                |                  |
| Sales Salaries Expense             | 5,000          |                  |
| Delivery Expense                   | 1,700          |                  |
| Customer Service Hotline Expense   | <u>1,400</u>   |                  |
| Total Expenses                     |                | <u>8,100</u>     |
| Net Income (Loss)                  |                | <u>\$ 33,900</u> |

---

\* From the Schedule of Cost of Goods Manufactured in Requirement 1.

**Requirement 3**

For a manufacturing company, cost of goods sold on the income statement is based on cost of goods manufactured and the change in Finished Goods Inventory. For a merchandising company, cost of goods sold on the income statement is based on cost of merchandise purchased (including freight in) and the change in Merchandise Inventory.

**Requirement 4**

$$\begin{aligned}\text{Unit product cost} &= \text{Cost of goods manufactured} / \text{Total units produced} \\ &= \$72,300 / 18,075 \text{ units} \\ &= \$4 \text{ per unit}\end{aligned}$$

**P18-32A**

---

**TIOGA MANUFACTURING COMPANY**  
**Schedule of Cost of Goods Manufactured**  
**Month Ended June 30, 2014**

---

|  |           |                   |
|--|-----------|-------------------|
| <u>Beginning Work-in-Process Inventory</u>                 |           | \$ 22,000         |
| <u>Direct Materials Used:</u>                              |           |                   |
| Beginning Raw Materials Inventory                          | \$ 26,000 |                   |
| Purchases of Raw Materials                                 | 54,000    |                   |
| <u>Raw Materials Available for Use</u>                     | 80,000    |                   |
| Ending Raw Materials Inventory                             | (23,000)  |                   |
| <u>Direct Materials Used</u>                               |           | 57,000            |
| <u>Direct Labor</u>  |           | 75,000            |
| <u>Manufacturing Overhead</u>                              |           | 43,000            |
| <u>Total Manufacturing Costs Incurred During the Month</u> |           | 175,000           |
| <u>Total Manufacturing Costs to Account For</u>            |           | 197,000           |
| <u>Ending Work-in-Process Inventory</u>                    |           | (29,000)          |
| <u>Cost of Goods Manufactured</u>                          |           | <u>\$ 168,000</u> |

---

Missing Amounts:

Beginning Raw Materials Inventory:

|  |                  |  |
|--|------------------|--|
| Raw Materials Available for Use          | \$ 80,000        |  |
| Purchases of Raw Materials               | (54,000)         |  |
| <u>Beginning Raw Materials Inventory</u> | <u>\$ 26,000</u> |  |

---

Direct Materials Used:

|                                 |                  |  |
|---------------------------------|------------------|--|
| Raw Materials Available for Use | \$ 80,000        |  |
| Ending Raw Materials Inventory  | (23,000)         |  |
| <u>Direct Materials Used</u>    | <u>\$ 57,000</u> |  |

---

Direct Labor:

|   |                  |  |
|---|------------------|--|
| Total Manufacturing Costs Incurred During the Month | \$ 175,000       |  |
| Manufacturing Overhead                              | (43,000)         |  |
| Direct Materials Used [calculated above]            | (57,000)         |  |
| <u>Direct Labor</u>                                 | <u>\$ 75,000</u> |  |

---

**P18-32A, cont.**

Total Manufacturing Costs to Account For:

|   |                   |
|---|-------------------|
| Beginning Work-in-Process Inventory                 | \$ 22,000         |
| Total Manufacturing Costs Incurred During the Month | <u>175,000</u>    |
| Total Manufacturing Costs to Account For            | <u>\$ 197,000</u> |

Cost of Goods Manufactured:

|   |                   |
|---|-------------------|
| Total Manufacturing Costs to Account For [calculated above] | \$ 197,000        |
| Ending Work-in-Process Inventory                            | <u>(29,000)</u>   |
| Cost of Goods Manufactured                                  | <u>\$ 168,000</u> |

---

**TIOGA MANUFACTURING COMPANY**  
**Income Statement**  
**Month Ended June 30, 2014**

---

|  |                 |                   |
|--|-----------------|-------------------|
| Sales Revenue                                    |                 | \$ 500,000        |
| Cost of Goods Sold:                              |                 |                   |
| Beginning Finished Goods Inventory               | \$ 112,000      |                   |
| <u>Cost of Goods Manufactured</u>                | <u>168,000</u>  |                   |
| Cost of Goods Available for Sale                 | <u>280,000</u>  |                   |
| Ending Finished Goods Inventory                  | <u>(63,000)</u> |                   |
| Cost of Goods Sold                               |                 | <u>217,000</u>    |
| Gross Profit                                     |                 | 283,000           |
| <u>Selling and Administrative Expenses:</u>      |                 |                   |
| Selling Expenses                                 | 94,000          |                   |
| Administrative Expenses                          | <u>65,000</u>   |                   |
| Total <u>Selling and Administrative Expenses</u> |                 | 159,000           |
| Operating Income                                 |                 | <u>\$ 124,000</u> |

---

Missing Amounts:

Sales Revenue:

|                    |                   |
|--------------------|-------------------|
| Cost of Goods Sold | \$ 217,000        |
| Gross Profit       | <u>283,000</u>    |
| Sales Revenue      | <u>\$ 500,000</u> |

**P18-32A, cont.**

Cost of Goods Manufactured:  
[From the Schedule of Cost of Goods Manufactured]

Cost of Goods Available for Sale:

|                                    |                   |
|------------------------------------|-------------------|
| Beginning Finished Goods Inventory | \$ 112,000        |
| Cost of Goods Manufactured         | <u>168,000</u>    |
| Cost of Goods Available for Sale   | <u>\$ 280,000</u> |

Ending Finished Goods Inventory:

|   |                  |
|---|------------------|
| Cost of Goods Available for Sale [calculated above] | \$ 280,000       |
| Cost of Goods Sold                                  | <u>(217,000)</u> |
| Ending Finished Goods Inventory                     | <u>\$ 63,000</u> |

Administrative Expenses:

|                          |                  |
|--------------------------|------------------|
| Total Operating Expenses | \$ 159,000       |
| Selling Expenses         | <u>(94,000)</u>  |
| Administrative Expenses  | <u>\$ 65,000</u> |

Operating Income:

|   |                   |
|---|-------------------|
| Gross Profit                              | \$ 283,000        |
| Total Selling and Administrative Expenses | <u>(159,000)</u>  |
| Operating Income                          | <u>\$ 124,000</u> |

**P18-33A**  
**Requirement 1**

Cost of raw materials purchased:

$$\begin{array}{rclcl} \text{Direct} & & \text{Beginning} & & \text{Cost of Raw} & & \text{Ending} \\ \text{Materials} & = & \text{Raw Materials} & + & \text{Materials} & - & \text{Raw Materials} \\ \text{Used} & & \text{Inventory} & & \text{Purchased} & & \text{Inventory} \end{array}$$

Solving for cost of raw materials purchased:

$$\begin{array}{rclcl} \text{Cost of Raw} & & \text{Direct} & & \text{Ending} & & \text{Beginning} \\ \text{Materials} & = & \text{Materials} & + & \text{Raw Materials} & - & \text{Raw Materials} \\ \text{Purchased} & & \text{Used} & & \text{Inventory} & & \text{Inventory} \\ & = & \$2,100,000 & + & \$900,000 & - & \$600,000 \\ & = & \$2,400,000 & & & & \end{array}$$

**Requirement 2**

Cost of goods manufactured for the year:

$$\begin{array}{rclcl} \text{Cost of} & & \text{Beginning} & & \text{Total} & & \text{Ending} \\ \text{Goods} & = & \text{Work-in-Process} & + & \text{Manufacturing} & - & \text{Work-in-Process} \\ \text{Manufactured} & & \text{Inventory} & & \text{Costs Incurred} & & \text{Inventory} \\ & = & \$800,000 & + & \$26,400,000 & - & \$1,400,000 \\ & = & \$25,800,000 & & & & \end{array}$$

**Requirement 3**

Cost of goods sold for the year:

$$\begin{array}{rclcl} \text{Cost of} & & \text{Beginning} & & \text{Cost of} & & \text{Ending} \\ \text{Goods} & = & \text{Finished Goods} & + & \text{Goods} & - & \text{Finished Goods} \\ \text{Sold} & & \text{Inventory} & & \text{Manufactured} & & \text{Inventory} \\ & = & \$700,000 & + & \$25,800,000 & - & \$990,000 \\ & = & \$25,510,000 & & \text{[calculated in 2]} & & \end{array}$$

## ***Problems (Group B)***

---

### **P18-34B**

Students' responses will vary. Illustrative answers follow.

#### **Requirement 1**

- a. If the goods have been received, postponing recording of the purchase understates liabilities. This is unethical and inconsistent with the IMA standards even if the supplier agrees to delay billing.
- b. The software has not been sold. Therefore, it would be inconsistent with the IMA standards to record it as sales.
- c. Delaying year-end closing incorrectly records next year's sales in this year's sales. This is unethical and inconsistent with the IMA standards.
- d. The appropriate allowance for bad debts is a difficult judgment. The decision should not be driven by the desire to meet a profit goal. It should be based on the likelihood that the company will not collect the debts. We cannot determine this without more information. However, since the company emphasizes earnings growth, which can lead to sales to customers with weaker credit records, reducing the allowance seems questionable. It is not clear whether this strategy is inconsistent with the IMA standards.
- e. If the maintenance is postponed, there is no transaction to record. This strategy is beyond the responsibility of the controller, so it does not violate IMA standards.

**P18-34B, cont.**  
**Requirement 2**

Management accountability is management's responsibility to the various stakeholders of the company. Each group of stakeholders has an interest of some sort in the business. Stakeholders include suppliers, employees, customers, vendors, investors, creditors, governments, and communities. Managers are accountable to the stakeholders and have a responsibility to wisely manage the company's resources.

Managers provide information about their decisions and the results of those decisions to the stakeholders. Financial accounting provides financial statements that report results of operations, financial position, and cash flows both to managers and to external stakeholders. Managerial accounting provides the information needed to plan and control operations. Managers are responsible to many stakeholders, so they must plan and control operations carefully. Making decisions that cause the company to decline will affect many different groups, from investors to employees, and may have an economic impact on the entire community.

The inconsistencies noted for Halo Software, Inc. particularly impact the financial statement information provided by financial accounting to external stakeholders.

**Requirement 3**

The controller should resist attempts to implement a, b, and c and should gather more information about d. If the President ignores Borzi, then Borzi needs to consider if she wants to work for a company that engages in unethical behavior.



**P18-35B****Requirement 1**

Period costs are operating costs that are expensed in the accounting period in which they are in-curred.

Product costs are all costs of a product that GAAP requires companies to treat as an asset for external financial reporting. These costs are recorded as an asset (inventory) on the balance sheet until the asset is sold. The cost is then transferred to an expense account (Cost of Goods Sold) on the income statement. Product costs include direct materials, direct labor, and manufacturing overhead.

On the income statement, Cost of Goods Sold (product cost) is subtracted from Sales Revenue to determine gross profit. The period costs are then subtracted from gross profit to determine operating income.

**Requirement 2**

| Cost:   | Period Cost | Product Cost     |              |                        |
|---|-------------|------------------|--------------|------------------------|
|   |             | Direct Materials | Direct Labor | Manufacturing Overhead |
| Handle and shaft of edger   |             | X                |              |                        |
| Motor of edger  |             | X                |              |                        |
| Factory labor for workers assembling edgers                         |             |                  | X            |                        |
| Lubricant used on bearings in the edger (not traced to the product) |             |                  |              | X                      |
| Glue to hold housing together                                       |             |                  |              | X                      |
| Plant janitorial wages  |             |                  |              | X                      |
| Depreciation on factory equipment                                   |             |                  |              | X                      |
| Rent on plant   |             |                  |              | X                      |
| Sales commissions   | X           |                  |              |                        |
| Administrative salaries   | X           |                  |              |                        |
| Plant utilities   |             |                  |              | X                      |
| Shipping costs to deliver finished edgers to customers              | X           |                  |              |                        |

**P18-36B****Requirement 1**

Service companies sell services rather than products. They sell time, skills, and knowledge. Merchandising companies resell products previously bought from suppliers. Manufacturing companies use labor, equipment, supplies, and facilities to convert raw materials into new finished products.

**Requirement 2**

Company 1 is a merchandising company. Company 2 is a manufacturing company. The company type can be determined by the account names in the ledger.

**Requirement 3**

Company 1:

|                                  |                   |
|----------------------------------|-------------------|
| Beginning Merchandise Inventory  | \$ 8,000          |
| Purchases                        | <u>165,000</u>    |
| Cost of Goods Available for Sale | 173,000           |
| Ending Merchandise Inventory     | <u>(13,000)</u>   |
| Cost of Goods Sold               | <u>\$ 160,000</u> |

Company 2:

|                                    |                   |
|------------------------------------|-------------------|
| Beginning Finished Goods Inventory | \$ 12,250         |
| Cost of Goods Manufactured         | <u>172,250</u>    |
| Cost of Goods Available for Sale   | 184,500           |
| Ending Finished Goods Inventory    | <u>(15,000)</u>   |
| Cost of Goods Sold                 | <u>\$ 169,500</u> |

**P18-37B**  
**Requirement 1**

---

**TOTAL GLASS COMPANY**  
**Income Statement**  
**Month Ended July 31, 2014**

---

|   |              |                 |
|---|--------------|-----------------|
| Revenues:                                   |              |                 |
| Sales Revenue                               |              | \$ 23,000       |
| Expenses:                                   |              |                 |
| Salaries and Wages Expense                  | \$ 11,000    |                 |
| Materials Expense                           | 4,800        |                 |
| Depreciation Expense—Truck                  | 550          |                 |
| Depreciation Expense—Building and Equipment | 1,200        |                 |
| Supplies Expense                            | 300          |                 |
| Utilities Expense                           | <u>2,620</u> |                 |
| Total Expenses                              |              | <u>20,470</u>   |
| Net Income                                  |              | <u>\$ 2,530</u> |

---

**Requirement 2**

$$\begin{aligned}\text{Per unit cost} &= \text{Total expenses} / \text{Total windshields repaired} \\ &= \$20,470 / 200 \text{ windshields} \\ &= \$102.35 \text{ per windshield}\end{aligned}$$

**Requirement 3**

No. The actual unit cost per windshield of \$102.35 is greater than \$70.

**P18-38B**  
**Requirement 1**

---

**CRAIG'S PETS**  
**Income Statement**  
**Year Ended December 31, 2014**

---

|                                  |                 |                  |
|----------------------------------|-----------------|------------------|
| Revenues:                        |                 |                  |
| Sales Revenue                    |                 | \$ 58,000        |
| Cost of Goods Sold:              |                 |                  |
| Beginning Merchandise Inventory  | \$ 15,400       |                  |
| Purchases of Merchandise         | <u>26,000</u>   |                  |
| Cost of Goods Available for Sale | 41,400          |                  |
| Ending Merchandise Inventory     | <u>(10,100)</u> |                  |
| Cost of Goods Sold               |                 | <u>31,300</u>    |
| Gross Profit                     |                 | 26,700           |
| Expenses:                        |                 |                  |
| Utilities Expense                | 3,300           |                  |
| Rent Expense                     | 4,500           |                  |
| Sales Commission Expense         | <u>2,850</u>    |                  |
| Total Expenses                   |                 | <u>10,650</u>    |
| Net Income                       |                 | <u>\$ 16,050</u> |

---

**Requirement 2**

$$\begin{aligned}\text{Unit cost} &= \text{Cost of goods sold} / \text{Total units sold} \\ &= \$31,300 / 3,900 \text{ units} \\ &= \$8.03 \text{ per unit}\end{aligned}$$

**P18-39B**  
**Requirement 1**

| <b>ORGANIC BONES</b><br><b>Schedule of Cost of Goods Manufactured</b><br><b>Year Ended December 31, 2014</b> |                |                         |
|--|----------------|-------------------------|
| Beginning Work-in-Process Inventory  |                | \$ 0                    |
| Direct Materials Used:   |                |                         |
| Beginning Raw Materials Inventory  | \$ 13,200      |                         |
| Purchases of Raw Materials   | <u>31,000</u>  |                         |
| Raw Materials Available for Use  | 44,200         |                         |
| Ending Raw Materials Inventory   | <u>(7,000)</u> |                         |
| Direct Materials Used  |                | \$ 37,200               |
| Direct Labor   |                | 23,000                  |
| Manufacturing Overhead:  |                |                         |
| Plant janitorial services  | 200            |                         |
| Utilities for plant  | 1,900          |                         |
| Rent on plant  | <u>11,000</u>  |                         |
| Total Manufacturing Overhead   |                | <u>13,100</u>           |
| Total Manufacturing Costs Incurred during the Year   |                | <u>73,300</u>           |
| Total Manufacturing Costs to Account For   |                | 73,300                  |
| Ending Work-in-Process Inventory   |                | <u>(4,000)</u>          |
| Cost of Goods Manufactured   |                | <u><u>\$ 69,300</u></u> |

**P18-39B, cont.**  
**Requirement 2**

---

**ORGANIC BONES**  
**Income Statement**  
**Year Ended December 31, 2014**

---

|                                    |                |                  |
|------------------------------------|----------------|------------------|
| Revenues:                          |                |                  |
| Sales Revenue                      |                | \$ 110,000       |
| Cost of Goods Sold:                |                |                  |
| Beginning Finished Goods Inventory | \$ 0           |                  |
| Cost of Goods Manufactured*        | <u>69,300</u>  |                  |
| Cost of Goods Available for Sale   | 69,300         |                  |
| Ending Finished Goods Inventory    | <u>(5,800)</u> |                  |
| Cost of Goods Sold                 |                | <u>63,500</u>    |
| Gross Profit                       |                | 46,500           |
| Expenses:                          |                |                  |
| Sales Salaries Expense             | 5,400          |                  |
| Delivery Expense                   | 1,400          |                  |
| Customer Service Hotline Expense   | <u>1,200</u>   |                  |
| Total Expenses                     |                | <u>8,000</u>     |
| Net Income (Loss)                  |                | <u>\$ 38,500</u> |

---

\* From the Schedule of Cost of Goods Manufactured in Requirement 1.

**Requirement 3**

For a manufacturing company, cost of goods sold on the income statement is based on cost of goods manufactured and the change in Finished Goods Inventory. For a merchandising company, cost of goods sold on the income statement is based on cost of merchandise purchased (including freight in) and the change in Merchandise Inventory.

**Requirement 4**

$$\begin{aligned}\text{Unit product cost} &= \text{Cost of goods manufactured} / \text{Total units produced} \\ &= \$69,300 / 15,400 \text{ units} \\ &= \$4.50 \text{ per unit}\end{aligned}$$

**P18-40B**

---

**PINTA MANUFACTURING COMPANY**  
**Schedule of Cost of Goods Manufactured**  
**Month Ended June 30, 2014**

---

|  |                  |                   |
|--|------------------|-------------------|
| <u>Beginning Work-in-Process Inventory</u>                 |                  | \$ 25,000         |
| <u>Direct Materials Used:</u>                              |                  |                   |
| Beginning Raw Materials Inventory                          | \$ <b>28,000</b> |                   |
| Purchases of Raw Materials                                 | 57,000           |                   |
| <u>Raw Materials Available for Use</u>                     | 85,000           |                   |
| Ending Raw Materials Inventory                             | <u>(22,000)</u>  |                   |
| <u>Direct Materials Used</u>                               |                  | \$ <b>63,000</b>  |
| <u>Direct Labor</u>  |                  | <b>74,000</b>     |
| <u>Manufacturing Overhead</u>                              |                  | <u>45,000</u>     |
| <u>Total Manufacturing Costs Incurred During the Month</u> |                  | 182,000           |
| <u>Total Manufacturing Costs to Account For</u>            |                  | <u>207,000</u>    |
| <u>Ending Work-in-Process Inventory</u>                    |                  | (21,000)          |
| <u>Cost of Goods Manufactured</u>                          |                  | <u>\$ 186,000</u> |

---

Missing Amounts:

Beginning Raw Materials Inventory:

|                                   |                  |
|-----------------------------------|------------------|
| Raw Materials Available for Use   | \$               |
| Purchases of Raw Materials        | 85               |
| Beginning Raw Materials Inventory | ,000             |
|                                   | <u>(57,000)</u>  |
|                                   | <u>\$ 28,000</u> |

Direct Materials Used:

|                                 |                  |
|---------------------------------|------------------|
| Raw Materials Available for Use | \$               |
| Ending Raw Materials Inventory  | 85               |
| Direct Materials Used           | ,000             |
|                                 | <u>(22,000)</u>  |
|                                 | <u>\$ 63,000</u> |

Direct Labor:

|   |                  |
|---|------------------|
| Total Manufacturing Costs Incurred During the Month | \$ 182,000       |
| Manufacturing Overhead                              | (45,000)         |
| Direct Materials Used [calculated above]            | <u>(63,000)</u>  |
| Direct Labor  | <u>\$ 74,000</u> |





**P18-40B, cont.**

Total Manufacturing Costs to Account For:

|   |                          |
|---|--------------------------|
| Beginning Work-in-Process Inventory                 | \$ 25,000                |
| Total Manufacturing Costs Incurred During the Month | <u>182,000</u>           |
| Total Manufacturing Costs to Account For            | <u><u>\$ 207,000</u></u> |

Cost of Goods Manufactured:

|   |                          |
|---|--------------------------|
| Total Manufacturing Costs to Account For [calculated above] | \$ 207,000               |
| Ending Work-in-Process Inventory                            | <u>(21,000)</u>          |
| Cost of Goods Manufactured                                  | <u><u>\$ 186,000</u></u> |

---

**PINTA MANUFACTURING COMPANY**  
**Income Statement**  
**Month Ended June 30, 2014**

---

|  |                 |                         |
|--|-----------------|-------------------------|
| Sales Revenue                                    |                 | \$ 440,000              |
| Cost of Goods Sold:                              |                 |                         |
| Beginning Finished Goods Inventory               | \$ 113,000      |                         |
| <u>Cost of Goods Manufactured</u>                | <u>186,000</u>  |                         |
| Cost of Goods Available for Sale                 | <u>299,000</u>  |                         |
| Ending Finished Goods Inventory                  | <u>(68,000)</u> |                         |
| Cost of Goods Sold                               |                 | <u>231,000</u>          |
| Gross Profit                                     |                 | 209,000                 |
| <u>Selling and Administrative Expenses:</u>      |                 |                         |
| Selling Expenses                                 | 93,000          |                         |
| Administrative Expenses                          | <u>61,000</u>   |                         |
| Total <u>Selling and Administrative Expenses</u> |                 | <u>154,000</u>          |
| Operating Income                                 |                 | <u><u>\$ 55,000</u></u> |

Missing Amounts:

Sales Revenue:

|                    |                          |
|--------------------|--------------------------|
| Cost of Goods Sold | \$ 231,000               |
| Gross Profit       | <u>209,000</u>           |
| Sales Revenue      | <u><u>\$ 440,000</u></u> |

**P18-40B, cont.**

Cost of Goods Manufactured:  
[From the Schedule of Cost of Goods Manufactured]

Cost of Goods Available for Sale:

|                                    |                   |
|------------------------------------|-------------------|
| Beginning Finished Goods Inventory | \$ 113,000        |
| Cost of Goods Manufactured         | <u>186,000</u>    |
| Cost of Goods Available for Sale   | <u>\$ 299,000</u> |

Ending Finished Goods Inventory:

|   |                  |
|---|------------------|
| Cost of Goods Available for Sale [calculated above] | \$ 299,000       |
| Cost of Goods Sold                                  | <u>(231,000)</u> |
| Ending Finished Goods Inventory                     | <u>\$ 68,000</u> |

Administrative Expenses:

|                          |                  |
|--------------------------|------------------|
| Total Operating Expenses | \$ 154,000       |
| Selling Expenses         | <u>(93,000)</u>  |
| Administrative Expenses  | <u>\$ 61,000</u> |

Operating Income:

|   |                  |
|---|------------------|
| Gross Profit                              | \$ 209,000       |
| Total Selling and Administrative Expenses | <u>(154,000)</u> |
| Operating Income                          | <u>\$ 55,000</u> |

**P18-41B**  
**Requirement 1**

Cost of raw materials purchased during the year:

$$\begin{array}{rclcl} \text{Direct} & & \text{Beginning} & & \text{Cost of Raw} & & \text{Ending} \\ \text{Materials} & = & \text{Raw Materials+} & & \text{Materials} & - & \text{Raw Materials} \\ \text{Used} & & \text{Inventory} & & \text{Purchased} & & \text{Inventory} \end{array}$$

Solving for cost of raw materials purchased:

$$\begin{array}{rclcl} \text{Cost of Raw} & & \text{Direct} & & \text{Ending} & & \text{Beginning} \\ \text{Materials} & = & \text{Materials} & + & \text{Raw Materials} & - & \text{Raw Materials} \\ \text{Purchased} & & \text{Used} & & \text{Inventory} & & \text{Inventory} \\ & = & \$2,800,000 & + & \$800,000 & - & \$900,000 \\ & = & \$2,700,000 & & & & \end{array}$$

**Requirement 2**

Cost of goods manufactured for the year:

$$\begin{array}{rclcl} \text{Cost of} & & \text{Beginning} & & \text{Total} & & \text{Ending} \\ \text{Goods} & = & \text{Work-in-Process} & + & \text{Manufacturing} & - & \text{Work-in-Process} \\ \text{Manufactured} & & \text{Inventory} & & \text{Costs Incurred} & & \text{Inventory} \\ & = & \$1,500,000 & + & \$22,900,000 & - & \$1,500,000 \\ & = & \$22,900,000 & & & & \end{array}$$

**Requirement 3**

Cost of goods sold for the year:

$$\begin{array}{rclcl} \text{Cost of} & & \text{Beginning} & & \text{Cost of} & & \text{Ending} \\ \text{Goods} & = & \text{Finished Goods} & + & \text{Goods} & - & \text{Finished Goods} \\ \text{Sold} & & \text{Inventory} & & \text{Manufactured} & & \text{Inventory} \\ & = & \$900,000 & + & \$22,900,000 & - & \$810,000 \\ & = & \$22,990,000 & & \text{[calculated in 2]} & & \end{array}$$

## Continuing Problem

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P18-42

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**DAVIS CONSULTING, INC. Schedule  
of Cost of Goods Manufactured  
Month Ended January 31, 2016**

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|  |                 |                   |
|--|-----------------|-------------------|
| Beginning Work-in-Process Inventory                |                 | \$ 0              |
| Direct Materials Used:                             |                 |                   |
| Beginning Raw Materials Inventory                  | \$ 10,800       |                   |
| Purchases of Raw Materials                         | <u>19,000</u>   |                   |
| Raw Materials Available for Use                    | 29,800          |                   |
| Ending Raw Materials Inventory                     | <u>(10,300)</u> |                   |
| Direct Materials Used                              |                 | \$ 19,500         |
| Direct Labor                                       |                 | 190,000           |
| Manufacturing Overhead:                            |                 |                   |
| Plant janitorial services                          | 700             |                   |
| Utilities for plant                                | 10,000          |                   |
| Rent on plant                                      | <u>13,000</u>   |                   |
| Total Manufacturing Overhead                       |                 | <u>23,700</u>     |
| Total Manufacturing Costs Incurred during the Year |                 | <u>233,200</u>    |
| Total Manufacturing Costs to Account For           |                 | 233,200           |
| Ending Work-in-Process Inventory                   |                 | <u>(21,000)</u>   |
| Cost of Goods Manufactured                         |                 | <u>\$ 212,200</u> |

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## Critical Thinking

### Decision Case 18-1 Requirement 1

Shown in the schedule, below, the ending inventories are: Raw Materials Inventory, \$143,000; Work-in-Process Inventory, \$239,000; and Finished Goods Inventory, \$150,000.

| <b>POWERSWITCH, INC.</b>          |  |                                    |
|-----------------------------------|--|------------------------------------|
| <b>Flow of Costs Schedule</b>     |  |                                    |
| <b>Raw Materials Inventory</b>    | <b>Work-in-Process Inventory</b>           | <b>Finished Goods Inventory</b>    |
| Beginning Inventory               | Beginning Inventory                        | Beginning Inventory                |
| \$ 113,000 *                      | \$ 229,000 *                               | \$ 154,000 *                       |
| + Purchases                       | + Direct Materials Used                    | + Cost of Goods Manufactured       |
| _ 476,000 *                       | 446,000 <sup>e</sup>                       | _ 1,186,000 <sup>c</sup>           |
|                                   | + Direct Labor                             |                                    |
|                                   | 505,000 *                                  |                                    |
|                                   | + Manufacturing Overhead                   |                                    |
|                                   | _ 245,000 *                                |                                    |
| = Raw Materials Available for Use | = Total Manufacturing Costs to Account For | = Cost of Goods Available for Sale |
| 589,000                           | 1,425,000 *                                | 1,340,000 *                        |
| - Ending Inventory                | - Ending Inventory                         | - Ending Inventory                 |
| _ 143,000 <sup>l</sup>            | _ 239,000 <sup>u</sup>                     | _ 150,000 <sup>v</sup>             |
| = Direct Materials Used           | = Cost of Goods Manufactured               | = Cost of Goods Sold               |
| _ \$ 446,000 <sup>e</sup>         | _ \$ 1,186,000 <sup>c</sup>                | _ \$ 1,190,000 <sup>a</sup>        |

\* Denotes amounts given in the case.

Calculations for amounts denoted with a superscript letters are provided below.

**Decision Case 18-1, cont.**

Calculations:

<sup>a</sup>Cost of Goods Sold:

$$\begin{array}{rclcl} \text{Sales} & \times & (1 - \text{Gross Profit \%}) & = & \text{Cost of Goods Sold} \\ \$1,700,000 & \times & (1 - 30\%) & = & \$1,190,000 \\ \$1,700,000 & \times & 70\% & = & \$1,190,000 \end{array}$$

<sup>b</sup>Ending Finished Goods Inventory:

$$\begin{array}{rclcl} \text{Cost of Goods} & & \text{Ending Finished} & & \\ \text{Available for Sale} & - & \text{Goods Inventory} & = & \text{Cost of Goods Sold} \\ \\ \$1,340,000 & - & \text{Ending Finished} & = & \$1,190,000 \\ & & \text{Goods Inventory} & & \\ \\ \textit{Therefore:} & & \text{Ending Finished} & = & \$150,000 \\ & & \text{Goods Inventory} & & \end{array}$$

<sup>c</sup>Cost of Goods Manufactured:

$$\begin{array}{rclcl} \text{Beginning Finished} & & \text{Cost of Goods} & & \text{Cost of Goods} \\ \text{Goods Inventory} & + & \text{Manufactured} & = & \text{Available for Sale} \\ \\ \$154,000 & + & \text{Cost of Goods} & = & \$1,340,000 \\ & & \text{Manufactured} & & \\ \\ \textit{Therefore:} & & \text{Cost of Goods} & = & \$1,186,000 \\ & & \text{Manufactured} & & \end{array}$$

<sup>d</sup>Ending Work-in-Process Inventory:

$$\begin{array}{rclcl} \text{Total Manufacturing} & & \text{Ending Work-in-Process} & & \text{Cost of Goods} \\ \text{Costs to Account For} & - & \text{Inventory} & = & \text{Manufactured} \\ \\ \$1,425,000 & - & \text{Ending Work-in-Process} & = & \$ 1,186,000 \\ & & \text{Inventory} & & \\ \\ \textit{Therefore:} & & \text{Ending Work-in-Process} & = & \$ 239,000 \\ & & \text{Inventory} & & \end{array}$$

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**Decision Case 18-1, cont.**

<sup>e</sup> Direct Materials Used:

|   |                               |                       |                             |   |   |
|---|-------------------------------|-----------------------|-----------------------------|---|---|
| Beginning<br>Work-in-Process<br>Inventory | + Direct<br>Materials<br>Used | + Direct<br>Labor     | + Manufacturing<br>Overhead | = | Total Manufacturing<br>Costs to Account For |
| \$229,000                                 | + Direct<br>Materials<br>Used | + \$505,000           | + \$245,000                 | = | \$1,425,000                                 |
| <i>Therefore:</i>                         |                               | Direct Materials Used |                             | = | \$ 446,000                                  |

<sup>f</sup> Ending Raw Materials Inventory:

|                                    |   |                                   |   |                          |
|------------------------------------|---|-----------------------------------|---|--------------------------|
| Raw Materials<br>Available for Use | – | Ending Raw<br>Materials Inventory | = | Direct Materials<br>Used |
| \$589,000                          | – | Ending Raw Materials Inventory    | = | \$446,000                |
| <i>Therefore:</i>                  |   | Ending Raw Materials Inventory    | = | \$143,000                |

**Requirement 2**

Inventory lost in the flood:

|                           |                  |
|---------------------------|------------------|
| Raw Materials Inventory   | \$143,000        |
| Work-in-Process Inventory | 239,000          |
| Finished Goods Inventory  | <u>150,000</u>   |
| Total Inventory           | <u>\$532,000</u> |

## Decision Case 18-2

Students' responses will vary. Illustrative answers follow.

- *Competence.* Students have a responsibility to build their professional competence by attending classes, conscientiously completing homework, and studying for exams.
- *Confidentiality.* When friends or family share intimate information, or highly personal information, you should respect the trust they have placed in you, and keep that information confidential, as is appropriate under the situation.
- *Integrity.* Students have a responsibility to act with integrity and not to cheat. Students also should help ensure the integrity of the process. For example, students should inform the instructor if they suspect other students have a copy of an upcoming exam.
- *Credibility.* Be honest and straightforward when communicating with others. Do not lie or deliberately mislead others.



## Ethical Issue 18-1

Students' responses will vary. Illustrative answers follow.

- a. The ethical issue facing Becky is deciding what to do about the gifts to the sales managers. Although small "courtesy" gifts are accepted practice in the world of sales, the regular basis and the high value of these items (especially jewelry) suggest that the owner is bribing the sales managers and other sales executives to receive a large allocation of cars.
- b. The options include:
  - (1) Do nothing,
  - (2) Discuss the matter with the owner,
  - (3) Resign if the owner will not stop the practice, or
  - (4) Inform the manufacturer.
- c. The possible consequences include:
  - (1) If Becky does nothing, her job and those of the other employees may remain secure for the time being. However, as controller she could be held accountable for laundering a bribe if the scheme became public. A lawsuit brought by other dealers who did not receive a fair share of available cars could name her as an involved party. If Becky is a CPA, she could also lose her CPA license.
  - (2) If Becky discusses the matter with the owner, she might find out that there is another side to the story and in fact there is no wrongdoing or ethical dilemma. However, this seems unlikely given the facts. It also seems unlikely that the owner will end this practice since it enhances the dealership's profits. However, Becky may have some influence on Mueller if she explains the dangers of continuing the bribes. Mueller could be sued by other dealers, or the manufacturer could cancel his dealership. Such outcomes would affect all the dealership's employees, not just Mueller. If Mueller refuses to change his ways, then Becky is in an even more difficult position because she now has direct knowledge of the bribery.
  - (3) By resigning, Becky loses her job but protects her integrity and avoids being involved in a subsequent action against the dealership if the bribery becomes known.
  - (4) Perhaps an even more difficult question is whether Becky should inform the manufacturer about the bribery. If Becky has not already resigned, Mueller probably would fire her for taking this action.
- d. Accountants should never become party to, or appear to be involved in, an unethical (and possibly illegal) situation such as this. This is especially true for persons with fiduciary responsibilities like a controller. Becky should discuss her concerns with the owner. If Mueller is indeed bribing the sales representatives and refuses to stop this practice, Becky should inform the manufacturer, or she should resign.

## **Fraud Case 18-1**

Students' responses will vary. Illustrative answers follow:

### **Requirement 1**

This case reflects a clear conflict of interest in that Juan Gomez, as a public accountant, was supposed to be independent of his client, but was in fact, financially involved. This is a clear violation of *integrity*. It also involves the issue of *credibility*, in that Juan “cooked the books” for his client, and thus sanctioned the publication of false financial information.

### **Requirement 2**

Juan would first have to pay back the loan he took from his client. Then he would have to remove himself from the engagement with this client, admit his actions, and possibly resign from his firm, because the falsified financial information would become apparent to whomever followed Juan on the engagement. These actions might, or might not, shield Juan from criminal or civil prosecution. The bottom line is that once Juan took the money, his career was in irreversible jeopardy.

## Team Project 18-1

Students' responses will vary. However, following are some observations.

The person interviewed could be identified through a connection of one of the students, a connection made by the instructor, or a connection through the school.

Requiring students to answer the first 4 questions before the interview will help ensure that they are prepared for the interview. It is important that students be prepared so they can make a favorable impression on the interviewee (for the school and future employment!) and so they do not waste the interviewee's time. If the company is of any reasonable size, students should be able to gather information from the library or the Internet.

While it would be unusual for a company not to have a website, its role in the company's business plan can vary significantly. The site may simply provide information about the company and/or its products and, for a manufacturer, a dealer locator. Other websites are designed to sell products. Certain web pages may be designed for sales to the general public, while other parts of the site may require a password and offer sales to specific customers on pre-arranged terms. The website might not give a full indication of the extent to which a company relies on the Internet. For example, a company may rely on the Internet for purchasing, budgeting, or communicating within the firm.

Increasing dependence on the Internet has implications for management accounting. A full-featured website may cost millions of dollars, so the CFO will likely be involved in the investment decision and in monitoring and evaluating the success of this investment. Management accountants will collect and analyze new types of data, such as the number of unique customers at the company's website and the length of time each customer spends at the site.

Accounting applications also may follow the underlying transactions to the web. For example, when a company moves business-to-business sales to the web, it also may adopt internet-based receivables management software to reduce billing costs and speed collection. The company also may install an ERP system to further integrate and speed its transaction processing.

### **Communication Activity 18-1**

Period costs are operating costs that are expensed in the same accounting period in which they are incurred, whereas product costs are recorded as an asset and not expensed until the accounting period in which the product is sold. Period costs are all costs not considered product costs.

Manufacturing companies track costs on three kinds of inventory. Raw Materials Inventory includes materials used to manufacture a product. Work-in-Process Inventory includes goods that have been started in the manufacturing process but are not yet complete. Finished Goods Inventory includes completed goods that have not yet been sold.