

**Test Bank for Managerial Accounting 15th Edition by Garrison Noreen
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Chapter 02 Managerial Accounting and Cost Concepts **Answer Key**

True / False Questions

1. Selling costs can be either direct or indirect costs.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

2. A direct cost is a cost that cannot be easily traced to the particular cost object under consideration.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

3. Property taxes and insurance premiums paid on a factory building are examples of period costs.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

4. Conversion cost equals product cost less direct labor cost.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

5. Thread that is used in the production of mattresses is an indirect material that is therefore classified as manufacturing overhead.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

6. Direct labor is a part of prime cost, but not conversion cost.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

7. Conversion cost is the sum of direct labor cost and direct materials cost.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

8. Direct material costs are generally fixed costs.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

9. Product costs are recorded as expenses in the period in which the related products are sold.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

10. Depreciation on manufacturing equipment is a product cost.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

11. Manufacturing salaries and wages incurred in the factory are period costs.

FALSE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

12. Depreciation on office equipment would be included in product costs.

FALSE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

13. Rent on a factory building used in the production process would be classified as a product cost and as a fixed cost.

TRUE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and

mixed costs.

14. A fixed cost remains constant if expressed on a unit basis.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

15. Total variable cost is expected to remain unchanged as activity changes within the relevant range.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

16. Country Charm Restaurant is open 24 hours a day and always has a fire going in the fireplace in the middle of its dining area. The cost of the firewood for this fire is fixed with respect to the number of meals served at the restaurant.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

17. Committed fixed costs represent organizational investments with a multi-year planning horizon that can't be significantly reduced even for short periods.

TRUE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

18. Commissions paid to salespersons are a variable selling expense.

TRUE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

19. Variable costs are costs that vary, in total, in direct proportion to changes in the volume or level of activity.

TRUE

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

20. The planning horizon for a committed fixed cost usually encompasses many years.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

21. Cost behavior is considered linear whenever a straight line is a reasonable approximation for the relation between cost and activity.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

22. The high-low method uses cost and activity data from just two periods to establish the formula for a mixed cost.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

23. The engineering approach to the analysis of mixed costs involves a detailed analysis of what cost behavior should be, based on an industrial engineer's evaluation of the production methods to be used, the materials specifications, labor requirements, equipment usage, production efficiency, power consumption, and so on.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

24. The contribution margin is the amount remaining from sales revenues after variable expenses have been deducted.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

25. A contribution format income statement for a merchandising company organizes costs into two categories—cost of goods sold and selling and administrative expenses.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

26. The traditional format income statement provides managers with an income statement that clearly distinguishes between fixed and variable costs and therefore aids planning, control, and decision making.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

27. In a contribution format income statement, the gross margin minus selling and administrative expenses equals net operating income.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

28. A traditional format income statement organizes costs on the basis of behavior.

FALSE

AACSB: Reflective Thinking

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

AICPA FN: Measurement

Blooms: Remember

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

29. In a traditional format income statement for a merchandising company, the selling and administrative expenses report all period costs that have been expensed as incurred.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

30. The contribution format is widely used for preparing external financial statements.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

31. Contribution margin equals revenue minus all fixed costs.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

32. The potential benefit that is given up when one alternative is selected over another is called an opportunity cost.

TRUE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

33. A cost that differs from one month to another is known as a differential cost.

FALSE

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

Multiple Choice Questions

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

34. The nursing station on the fourth floor of Central Hospital is responsible for the care of orthopedic surgery patients. The costs of prescription drugs administered by the nursing station to patients should be classified as:

- A.** direct patient costs.
- B. indirect patient costs.
- C. overhead costs of the nursing station.
- D. period costs of the hospital.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

35. All of the following costs would be found in a company's accounting records except:

- A. sunk cost.
- B.** opportunity cost.
- C. indirect costs.
- D. direct costs.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and

indirect costs.

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

36. The costs of the Accounting Department at Central Hospital would be considered by the Surgery Department to be:

- A. direct costs.
- B. indirect costs.**
- C. incremental costs.
- D. opportunity costs.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

37. Which of the following is classified as a direct labor cost?

| | Wages of assembly-line workers | Wages of a factory supervisor |
|----|--------------------------------|-------------------------------|
| A) | No | No |
| B) | Yes | Yes |
| C) | No | Yes |
| D) | Yes | No |

- A. Option A
- B. Option B
- C. Option C
- D. Option D**

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement

indirect costs.

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

38. In a manufacturing company, direct labor costs combined with direct materials costs are known as:

- A. period costs.
- B. conversion costs.
- C. prime costs.**
- D. opportunity costs.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

39. The property taxes on a factory building would be an example of:

| | Prime Cost | Conversion Cost |
|----|------------|-----------------|
| A) | No | Yes |
| B) | Yes | No |
| C) | Yes | Yes |
| D) | No | No |

- A. Option A**
- B. Option B
- C. Option C
- D. Option D

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

40. Which of the following would most likely be included as part of manufacturing overhead in the production of a wooden table?

- A. The amount paid to the individual who stains the table.
- B. The commission paid to the salesperson who sold the table.
- C.** The cost of glue used in the table.
- D. The cost of the wood used in the table.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

41. Property taxes on a manufacturing facility are classified as:

| | Conversion cost | Period cost |
|----|-----------------|-------------|
| A) | Yes | No |
| B) | Yes | Yes |
| C) | No | Yes |
| D) | No | No |

- A.** Option A
- B. Option B
- C. Option C
- D. Option D

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

42. Indirect labor is a(n):

- A. Prime cost.
- B. Conversion cost.**
- C. Period cost.
- D. Opportunity cost.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

43. The salary paid to the maintenance supervisor in a manufacturing plant is an example of:

| | Product Cost | Manufacturing Overhead |
|----|--------------|------------------------|
| A) | No | Yes |
| B) | Yes | No |
| C) | Yes | Yes |
| D) | No | No |

- A. Option A
- B. Option B
- C.** Option C
- D. Option D

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

44. All of the following would be classified as product costs except:

- A. property taxes on production equipment.
- B. insurance on factory machinery.
- C.** salaries of the marketing staff.
- D. wages of machine operators.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

45. The cost of direct materials cost is classified as a:

| | Period cost | Product cost |
|----|-------------|--------------|
| A) | Yes | Yes |
| B) | No | No |
| C) | Yes | No |
| D) | No | Yes |

- A. Option A
- B. Option B
- C. Option C
- D.** Option D

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

46. Which of the following costs is classified as a prime cost?

| | Direct materials | Indirect materials |
|----|------------------|--------------------|
| A) | Yes | Yes |
| B) | No | No |
| C) | Yes | No |
| D) | No | Yes |

- A. Option A
- B. Option B
- C.** Option C
- D. Option D

AACSB: Reflective Thinking
AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

47. Inventoriable costs are also known as:

- A. variable costs.
- B. conversion costs.
- C.** product costs.
- D. fixed costs.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

48. Fresh Wreath Corporation manufactures wreaths according to customer specifications and ships them to customers using United Parcel Service (UPS). Which two terms below describe the cost of shipping these wreaths?

- A. variable cost and product cost
- B.** variable cost and period cost
- C. fixed cost and product cost
- D. fixed cost and period cost

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

49. If the level of activity increases within the relevant range:

- A. variable cost per unit and total fixed costs also increase.
- B. fixed cost per unit and total variable cost also increase.
- C.** total cost will increase and fixed cost per unit will decrease.
- D. variable cost per unit and total cost also increase.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

50. Within the relevant range:

- A. variable cost per unit decreases as production decreases.
- B.** fixed cost per unit increases as production decreases.
- C. fixed cost per unit decreases as production decreases.
- D. variable cost per unit increases as production decreases.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

51. Discretionary fixed costs:

- A. have a planning horizon that covers many years.
- B.** may be reduced for short periods of time with minimal damage to the long-run goals of the organization.
- C. cannot be reduced for even short periods of time without making fundamental changes.
- D. are most effectively controlled through the effective utilization of facilities and organization.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

52. When the activity level declines within the relevant range, what should happen with respect to the following?

| | Fixed cost per unit | Variable cost per unit |
|----|---------------------|------------------------|
| A) | No change | Increase |
| B) | Increase | Increase |
| C) | Increase | No change |
| D) | No change | No change |

- A. Option A
- B. Option B
- C.** Option C
- D. Option D

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

53. Stott Company requires one full-time dock hand for every 500 packages loaded daily. The wages for these dock hands would be:

- A. variable.
- B. mixed.
- C.** step-variable.
- D. curvilinear.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

54. When the level of activity decreases, variable costs will:

- A. increase per unit.
- B. increase in total. **C.**
- decrease in total. D.
- decrease per unit.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

55. Data for Cost A and Cost B appear below:

| | Units Produced | Cost Per Unit | Total Cost |
|--------|----------------|---------------|------------|
| Cost A | 1 | ? | \$10 |
| | 10 | ? | \$100 |
| | 100 | ? | \$1,000 |
| | 1,000 | ? | \$10,000 |
| Cost B | 1 | \$5,000 | ? |
| | 10 | \$500 | ? |
| | 100 | \$50 | ? |
| | 1,000 | \$5 | ? |

Which of the above best describes the behavior of Costs A and B?

- A. Cost A is fixed, Cost B is variable.
- B.** Cost A is variable, Cost B is fixed.
- C. Both Cost A and Cost B are variable.
- D. Both Cost A and Cost B are fixed.

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Analyze
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

56. Which of the following companies would have the highest proportion of variable costs in its cost structure?

- A. Public utility.
- B. Airline.
- C.** Fast food outlet.
- D. Architectural firm.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

57. An example of a discretionary fixed cost would be:

- A. taxes on the factory.
- B. depreciation on manufacturing equipment.
- C. insurance.
- D.** research and development.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

58. For planning, control, and decision-making purposes:

- A. fixed costs should be converted to a per unit basis.
- B. discretionary fixed costs should be eliminated.
- C. variable costs should be ignored.
- D.** mixed costs should be separated into their variable and fixed components.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

59. Which of the following costs, if expressed on a per unit basis, would be expected to decrease as the level of production and sales increases?

- A. Sales commissions.
- B.** Fixed manufacturing overhead.
- C. Variable manufacturing overhead.
- D. Direct materials.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

60. In describing the cost equation, $Y = a + bX$, "a" is:

- A. the dependent variable cost.
- B. the independent variable the level of activity.
- C.** the total fixed cost.
- D. the variable cost per unit of activity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

61. Which of the following is an example of a cost that is variable with respect to the number of units produced?

- A. Rent on the administrative office building.
- B. Rent on the factory building.
- C.** Direct labor cost, where the direct labor workforce is adjusted to the actual production of the period.
- D. Salaries of top marketing executives.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

62. Contribution margin means:

- A. what remains from total sales after deducting fixed expenses.
- B. what remains from total sales after deducting cost of goods sold.
- C. the sum of cost of goods sold and variable expenses.
- D.** what remains from total sales after deducting all variable expenses.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

63. The _____ is the amount remaining from sales revenue after all variable expenses have been deducted.

- A. cost structure
- B. gross margin
- C.** contribution margin
- D. committed fixed cost

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

64. A sunk cost is:

- A. a cost which may be saved by not adopting an alternative.
- B. a cost which may be shifted to the future with little or no effect on current operations.
- C.** a cost which cannot be avoided because it has already been incurred.
- D. a cost which does not entail any dollar outlay but which is relevant to the decision-making process.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

65. The cost of factory machinery purchased last year is:

- A. an opportunity cost.
- B. a differential cost.
- C. a direct materials cost.
- D.** a sunk cost.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

66. Abbott Company's manufacturing overhead is 20% of its total conversion costs. If direct labor is \$38,000 and if direct materials are \$23,000, the manufacturing overhead is:

- A.** \$9,500
- B. \$152,000
- C. \$5,750
- D. \$15,250

$$\text{Manufacturing overhead} = 0.20 \times \text{Conversion cost}$$

$$\text{Direct labor} = \$38,000$$

$$\text{Conversion cost} = \text{Direct labor} + \text{Manufacturing overhead}$$

$$\text{Conversion cost} = \$38,000 + \text{Manufacturing overhead}$$

$$\text{Conversion cost} = \$38,000 + (0.20 \times \text{Conversion cost})$$

$$0.80 \times \text{Conversion cost} = \$38,000$$

$$\text{Conversion cost} = \$38,000 \div 0.80 = \$47,500$$

$$\text{Manufacturing overhead} = 0.20 \times \text{Conversion cost}$$

$$\text{Manufacturing overhead} = 0.20 \times \$47,500 = \$9,500$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

67. During the month of April, direct labor cost totaled \$15,000 and direct labor cost was 30% of prime cost. If total manufacturing costs during April were \$79,000, the manufacturing overhead was:

- A. \$35,000
- B. \$29,000**
- C. \$50,000
- D. \$129,000

$$\text{Direct labor} = \$15,000$$

$$\text{Direct labor} = 0.30 \times \text{Prime cost}$$

$$\text{Total manufacturing cost} = \$79,000$$

$$\text{Direct labor cost} = 0.30 \times \text{Prime cost}$$

$$\text{Prime cost} = \text{Direct labor cost} \div 0.30$$

$$\text{Prime cost} = \$15,000 \div 0.30 = \$50,000$$

$$\text{Total manufacturing cost} = \text{Prime cost} + \text{Manufacturing overhead cost}$$

$$\$79,000 = \$50,000 + \text{Manufacturing overhead cost}$$

$$\text{Manufacturing overhead cost} = \$29,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

68. In April direct labor was 70% of conversion cost. If the manufacturing overhead for the month was \$42,000 and the direct materials cost was \$28,000, the direct labor cost was:

- A.** \$98,000
- B. \$65,333
- C. \$18,000
- D. \$12,000

$$\text{Direct labor} = 0.70 \times \text{Conversion cost}$$

$$\text{Manufacturing overhead} = \$42,000$$

$$\text{Conversion cost} = \text{Direct labor} + \text{Manufacturing overhead}$$

$$\text{Conversion cost} = \text{Direct labor} + \$42,000$$

$$\text{Conversion cost} = (0.70 \times \text{Conversion cost}) + \$42,000$$

$$0.30 \times \text{Conversion cost} = \$42,000$$

$$\text{Conversion cost} = \$42,000 \div 0.30$$

$$\text{Conversion cost} = \$140,000$$

$$\text{Direct labor} = 0.70 \times \text{Conversion cost} = 0.70 \times \$140,000 = \$98,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

69. A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is \$2,400 and is paid at the beginning of the first year. Seventy percent of the premium applies to manufacturing operations and thirty percent applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?

| | Product | Period |
|----|---------|--------|
| A) | \$800 | \$0 |
| B) | \$0 | \$800 |
| C) | \$560 | \$240 |
| D) | \$240 | \$560 |

- A. Option A
 B. Option B
C. Option C
 D. Option D

$$\text{Annual insurance expense} = \$2,400 \div 3 = \$800$$

$$\text{Portion applicable to product cost} = 0.70 \times \$800 = \$560$$

$$\text{Portion applicable to period cost} = 0.30 \times \$800 = \$240$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

70. The following costs were incurred in April:

| | |
|------------------------------|----------|
| Direct materials..... | \$18,000 |
| Direct labor..... | \$21,000 |
| Manufacturing overhead..... | \$33,000 |
| Selling expenses..... | \$14,000 |
| Administrative expenses..... | \$19,000 |

Conversion costs during the month totaled:

- A. \$39,000
- B. \$54,000**
- C. \$105,000
- D. \$51,000

$$\begin{aligned}\text{Conversion cost} &= \text{Direct labor} + \text{Manufacturing overhead} \\ &= \$21,000 + \$33,000 = \$54,000\end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

71. The following costs were incurred in April:

| | |
|------------------------------|----------|
| Direct materials..... | \$29,000 |
| Direct labor..... | \$24,000 |
| Manufacturing overhead..... | \$14,000 |
| Selling expenses..... | \$18,000 |
| Administrative expenses..... | \$18,000 |

Prime costs during the month totaled:

- A. \$53,000
- B. \$67,000
- C. \$38,000
- D. \$103,000

$$\begin{aligned} \text{Prime cost} &= \text{Direct materials} + \text{Direct labor} \\ &= \$29,000 + \$24,000 = \$53,000 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

72. At a volume of 8,000 units, Pwerson Company incurred \$32,000 in factory overhead costs, including \$12,000 in fixed costs. If volume increases to 9,000 units and both 8,000 units and 9,000 units are within the relevant range, then the company would expect to incur total factory overhead costs of:

- A. \$22,500
- B. \$32,000
- C. \$34,500**
- D. \$20,000

Total cost = Total fixed cost + Total variable cost

\$32,000 = \$12,000 + Total variable cost

Total variable cost = \$32,000 - \$12,000 = \$20,000

Variable cost per unit = \$20,000 ÷ 8,000 units = \$2.50 per unit

Total cost = Total fixed cost + Total variable cost

= \$12,000 + (\$2.50 per unit × 9,000 units)

= \$12,000 + \$22,500

= \$34,500

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

73. The following data pertains to activity and costs for two months:

| | June | July |
|------------------------------|-----------------|-----------------|
| Activity level in units..... | 10,000 | 12,000 |
| Direct materials..... | \$16,000 | \$? |
| Fixed factory rent..... | 12,000 | ? |
| Manufacturing overhead.... | 10,000 | ? |
| Total cost..... | <u>\$38,000</u> | <u>\$42,900</u> |

Assuming that these activity levels are within the relevant range, the manufacturing overhead for July was:

- A. \$10,000
- B. \$11,700**
- C. \$19,000
- D. \$9,300

Direct materials per unit = $\$16,000 \div 10,000 \text{ units} = \1.60 per unit

Total direct materials cost in July = $\$1.60 \text{ per unit} \times 12,000 \text{ units} = \$19,200$

Fixed factory rent = \$12,000 (given)

Total cost = Direct materials + Fixed factory rent + Manufacturing overhead

$\$42,900 = \$19,200 + \$12,000 + \text{Manufacturing overhead}$

Manufacturing overhead = $\$42,900 - (\$19,200 + \$12,000)$

= $\$42,900 - \$31,200$

= \$11,700

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

74. At an activity level of 4,000 machine-hours in a month, Curt Corporation's total variable production engineering cost is \$154,200 and its total fixed production engineering cost is \$129,000. What would be the total production engineering cost per unit, both fixed and variable, at an activity level of 4,300 machine-hours in a month? Assume that this level of activity is within the relevant range.

- A. \$68.33
- B. \$68.55**
- C. \$70.80
- D. \$65.86

Variable cost per unit = $\$154,200 \div 4,000 \text{ units} = \38.55 per unit

Fixed cost per unit at 4,300 units = $\$129,000 \div 4,300 \text{ units} = \30.00 per unit

Total cost = Variable cost + Fixed cost

= $\$38.55 \text{ per unit} + \30.00 per unit

= $\$68.55 \text{ per unit}$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

75. Ricwy Corporation uses the cost formula $Y = \$4,800 + \$0.40X$ for the maintenance cost, where X is machine-hours. The August budget is based on 9,000 hours of planned machine time. Maintenance cost expected to be incurred during August is:

- A. \$4,800
- B. \$3,600
- C. \$8,400**
- D. \$1,200

$$\begin{aligned} Y &= \$4,800 + \$0.40 \text{ per unit} \times X \\ &= \$4,800 + (\$0.40 \text{ per unit} \times 9,000 \text{ hours}) \\ &= \$4,800 + \$3,600 \\ &= \$8,400 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

76. Given the cost formula $Y = \$18,000 + \$6X$, total cost at an activity level of 9,000 units would be:

- A.** \$72,000
- B. \$18,000
- C. \$36,000
- D. \$54,000

$$Y = \$18,000 + (\$6 \text{ per unit} \times 9,000 \text{ units})$$

$$Y = \$18,000 + \$54,000$$

$$Y = \$72,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

77. At an activity level of 6,900 units in a month, Zelinski Corporation's total variable maintenance and repair cost is \$408,756 and its total fixed maintenance and repair cost is \$230,253. What would be the total maintenance and repair cost, both fixed and variable, at an activity level of 7,100 units in a month? Assume that this level of activity is within the relevant range.

- A. \$648,270
- B. \$639,009
- C. \$650,857**
- D. \$657,531

$$\text{Variable cost per unit} = \$408,756 \div 6,900 \text{ units} = \$59.24 \text{ unit}$$

$$\text{Total cost} = \text{Total fixed cost} + \text{Total variable cost}$$

$$= \$230,253 + (\$59.24 \text{ per unit} \times 7,100 \text{ units})$$

$$= \$230,253 + \$420,604$$

$$= \$650,857$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

78. Given the cost formula, $Y = \$7,000 + \$1.80X$, total cost for an activity level of 4,000 units would be:

- A. \$7,000
- B. \$200
- C. \$7,200
- D.** \$14,200

$$\begin{aligned} Y &= \$7,000 + (\$1.80 \text{ per unit} \times X) \\ &= \$7,000 + (\$1.80 \text{ per unit} \times 4,000 \text{ units}) \\ &= \$7,000 + \$7,200 \\ &= \$14,200 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

79. Kaelker Corporation reports that at an activity level of 7,000 units, its total variable cost is \$590,730 and its total fixed cost is \$372,750. What would be the total cost, both fixed and variable, at an activity level of 7,100 units? Assume that this level of activity is within the relevant range.

- A. \$963,480
- B. \$977,244
- C. \$971,919**
- D. \$970,362

Variable cost per unit = $\$590,730 \div 7,000 \text{ units} = \84.39 unit

Total cost = Total fixed cost + Total variable cost

= $\$372,750 + \$84.39 \text{ per unit} \times 7,100 \text{ units}$

= $\$372,750 + \$599,169$

= $\$971,919$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

80. Eddy Corporation has provided the following production and total cost data for two levels of monthly production volume. The company produces a single product.

| Production volume..... | 6,000 units | 7,000 units |
|-----------------------------|-------------|-------------|
| Direct materials..... | \$582,600 | \$679,700 |
| Direct labor..... | \$136,200 | \$158,900 |
| Manufacturing overhead..... | \$691,800 | \$714,700 |

The best estimate of the total variable manufacturing cost per unit is:

- A. \$22.90
- B. \$119.80
- C. \$142.70**
- D. \$97.10

$$\begin{aligned}
 \text{Direct materials cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$679,700 - \$582,600) \div (7,000 \text{ units} - 6,000 \text{ units}) \\
 &= \$97,100 \div 1,000 \text{ per unit} \\
 &= \$97.10 \text{ per unit}
 \end{aligned}$$

$$\begin{aligned}
 \text{Direct labor cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$158,900 - \$136,200) \div (7,000 \text{ units} - 6,000 \text{ units}) \\
 &= \$22,700 \div 1,000 \text{ units} \\
 &= \$22.70 \text{ per unit}
 \end{aligned}$$

$$\begin{aligned}
 \text{Variable manufacturing overhead per unit} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$714,700 - \$691,800) \div (7,000 \text{ units} - 6,000 \text{ units}) \\
 &= \$22,900 \div 1,000 \text{ units} \\
 &= \$22.90 \text{ per unit}
 \end{aligned}$$

$$\begin{aligned}
 \text{Total variable manufacturing cost per unit} &= \text{Direct materials per unit} + \text{Direct labor per unit} \\
 &+ \text{Variable manufacturing overhead per unit} = \$97.10 \text{ per unit} + \$22.70 \text{ per unit} + \\
 & \$22.90 \text{ per unit} = \$142.70 \text{ per unit}
 \end{aligned}$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

81. Cardiv Corporation has provided the following production and average cost data for two levels of monthly production volume. The company produces a single product.

| Production volume | 4,000 units | 5,000 units |
|-----------------------------|------------------|------------------|
| Direct materials..... | \$85.80 per unit | \$85.80 per unit |
| Direct labor..... | \$56.10 per unit | \$56.10 per unit |
| Manufacturing overhead..... | \$73.60 per unit | \$62.10 per unit |

The best estimate of the total cost to manufacture 4,300 units is closest to:

- A. \$877,200
- B. \$909,400**
- C. \$901,925
- D. \$926,650

Total manufacturing overhead at 5,000 units = 5,000 units × \$62.10 per unit = \$310,500

Total manufacturing overhead at 4,000 units = 4,000 units × \$73.60 per unit = \$294,400

Variable manufacturing overhead per unit = Change in cost ÷ Change in activity

= (\$310,500 - \$294,400) ÷ (5,000 units - 4,000 units)

= \$16,100 ÷ 1,000 units

= \$16.10 per unit

Fixed cost element of manufacturing overhead = Total cost - Variable cost element

= \$310,500 - (5,000 units × \$16.10 per unit)

= \$310,500 - \$80,500

= \$230,000

Total variable manufacturing cost = Direct materials + Direct labor + Manufacturing overhead

= \$85.80 per unit + \$56.10 per unit + \$16.10 per unit

= \$158.00 per unit

Total manufacturing cost = Total variable manufacturing cost per unit × Total units

manufactured + Total fixed manufacturing cost

= (\$158.00 per unit × 4,300 units) + \$230,000

$$\begin{aligned} &= \$679,400 + \$230,000 \\ &= \$909,400 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

82. Harris Corporation is a wholesaler that sells a single product. Management has provided the following cost data for two levels of monthly sales volume. The company sells the product for \$84.40 per unit.

| | | |
|--|-----------|-----------|
| Sales volume (units) | 5,000 | 6,000 |
| Cost of sales | \$285,000 | \$342,000 |
| Selling and administrative costs | \$107,500 | \$120,000 |

The best estimate of the total variable cost per unit is:

- A. \$77.00
- B. \$57.00
- C. \$69.50**
- D. \$78.50

$$\begin{aligned}
 \text{Variable cost of sales} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$342,000 - \$285,000) \div (6,000 \text{ units} - 5,000 \text{ units}) \\
 &= \$57,000 \div 1,000 \text{ units} \\
 &= \$57.00 \text{ per unit}
 \end{aligned}$$

$$\begin{aligned}
 \text{Variable selling and administrative cost} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$120,000 - \$107,500) \div (6,000 \text{ units} - 5,000 \text{ units}) \\
 &= \$12,500 \div 1,000 \text{ units} \\
 &= \$12.50 \text{ per unit}
 \end{aligned}$$

$$\begin{aligned}
 \text{Total variable cost} &= \text{Variable cost of sales} + \text{Variable selling and administrative cost} \\
 &= \$57.00 \text{ per unit} + \$12.50 \text{ per unit} \\
 &= \$69.50 \text{ per unit}
 \end{aligned}$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and

mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

83. Werner Brothers, Inc., used the high-low method to derive its cost formula for electrical power cost. According to the cost formula, the variable cost per unit of activity is \$2 per machine-hour. Total electrical power cost at the high level of activity was \$9,400 and at the low level of activity was \$9,000. If the high level of activity was 2,200 machine hours, then the low level of activity was:

- A. 1,800 machine hours
- B. 1,900 machine hours
- C. 2,000 machine hours**
- D. 1,700 machine hours

Total cost = Total fixed cost + Total variable cost

High level of activity:

$$\$9,400 = \text{Total fixed cost} + (\$2 \text{ per machine-hour} \times 2,200 \text{ machine hours})$$

$$\text{Total fixed cost} = \$9,400 - \$4,400 = \$5,000$$

Low level of activity:

$$\$9,000 = \$5,000 + (\$2 \text{ per machine-hour} \times \text{Low level of activity})$$

$$\$2 \text{ per machine-hour} \times \text{Low level of activity} = \$9,000 - \$5,000 = \$4,000$$

$$\text{Low level of activity} = 2,000 \text{ machine hours.}$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

84. Davis Corporation has provided the following production and total cost data for two levels of monthly production volume. The company produces a single product.

| Production volume | 1,000 units | 2,000 units |
|-----------------------------|-------------|-------------|
| Direct materials..... | \$44,200 | \$88,400 |
| Direct labor..... | \$37,300 | \$74,600 |
| Manufacturing overhead..... | \$48,500 | \$62,200 |

The best estimate of the total monthly fixed manufacturing cost is:

- A. \$130,000
- B. \$177,600
- C. \$34,800**
- D. \$225,200

Direct materials and direct labor are both strictly variable costs in this company.

$$\begin{aligned} \text{Variable manufacturing overhead cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$62,200 - \$48,500) \div (2,000 \text{ units} - 1,000 \text{ units}) \\ &= \$13,700 \div 1,000 \text{ units} \\ &= \$13.70 \text{ per unit} \end{aligned}$$

$$\begin{aligned} \text{Fixed cost element of manufacturing overhead} &= \text{Total cost} - \text{Variable cost element} \\ &= \$62,200 - (2,000 \text{ units} \times \$13.70 \text{ per unit}) \\ &= \$62,200 - \$27,400 \\ &= \$34,800 \end{aligned}$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

85. Anderson Corporation has provided the following production and average cost data for two levels of monthly production volume. The company produces a single product.

| Production volume | 4,000 units | 5,000 units |
|-----------------------------|------------------|------------------|
| Direct materials..... | \$99.20 per unit | \$99.20 per unit |
| Direct labor..... | \$45.50 per unit | \$45.50 per unit |
| Manufacturing overhead..... | \$94.00 per unit | \$77.60 per unit |

The best estimate of the total monthly fixed manufacturing cost is:

- A. \$388,000
- B. \$954,800
- C. \$376,000
- D. \$328,000**

Both direct materials and direct labor are variable costs.

Total manufacturing overhead at 4,000 units = \$94.00 per unit × 4,000 units = \$376,000

Total manufacturing overhead at 5,000 units = \$77.60 per unit × 5,000 units = \$388,000

Variable element of manufacturing overhead = Change in cost ÷ Change in activity

= (\$388,000 - \$376,000) ÷ (5,000 units - 4,000 units)

= \$12,000 ÷ 1,000 units

= \$12 per unit

Fixed cost element of manufacturing overhead = Total cost - Total variable cost

= \$388,000 - (\$12.00 per unit × 5,000 units)

= \$388,000 - (\$60,000)

= \$328,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

86. Farmington Corporation has provided the following production and total cost data for two levels of monthly production volume. The company produces a single product.

| Production volume | 6,000 units | 7,000 units |
|------------------------------|-------------|-------------|
| Direct materials | \$195,000 | \$227,500 |
| Direct labor | \$113,400 | \$132,300 |
| Manufacturing overhead | \$913,200 | \$931,700 |

The best estimate of the total cost to manufacture 6,300 units is closest to:

- A. \$1,162,350
- B. \$1,242,570**
- C. \$1,222,515
- D. \$1,282,680

Direct materials is a variable cost, so it can be computed as follows:

$$\text{Direct materials cost per unit} = \$195,000 / 6,000 \text{ units} = \$32.50 \text{ per unit}$$

Direct labor could also be computed the same way, but just to make sure it is purely a variable cost, we'll use the high-low method:

$$\begin{aligned} \text{Variable direct labor cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$132,300 - \$113,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$18,900 \div 1,000 \text{ units} \\ &= \$18.90 \text{ per unit} \end{aligned}$$

Direct labor fixed cost element = Total cost - Variable cost element

$$\begin{aligned} &= \$132,300 - (\$18.90 \text{ per unit} \times 7,000 \text{ units}) \\ &= \$132,300 - \$132,300 = \$0 \end{aligned}$$

Variable manufacturing overhead cost per unit = Change in cost ÷ Change in activity

$$\begin{aligned} &= (\$931,700 - \$913,200) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$18,500 \div 1,000 \text{ units} \\ &= \$18.50 \text{ per unit} \end{aligned}$$

Manufacturing overhead fixed cost element = Total cost - Variable cost element

$$= \$931,700 - (\$18.50 \text{ per unit} \times 7,000 \text{ units})$$

$$= \$931,700 - \$129,500 = \$802,200$$

Total variable cost = Direct materials + Direct labor + Variable manufacturing overhead

$$= \$32.50 \text{ per unit} + \$18.90 \text{ per unit} + \$18.50 \text{ per unit}$$

$$= \$69.90 \text{ per unit}$$

Total fixed overhead cost = \$802,200

Total cost to manufacture 6,300 units = Total fixed cost + Total variable cost

$$= \$802,200 + (\$69.90 \text{ per unit} \times 6,300 \text{ units})$$

$$= \$802,200 + \$440,370$$

$$= \$1,242,570$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

87. Baker Corporation has provided the following production and average cost data for two levels of monthly production volume. The company produces a single product.

| | | |
|-----------------------------|------------------|------------------|
| Production volume..... | 1,000 units | 3,000 units |
| Direct materials..... | \$30.90 per unit | \$30.90 per unit |
| Direct labor..... | \$40.20 per unit | \$40.20 per unit |
| Manufacturing overhead..... | \$64.60 per unit | \$33.80 per unit |

The best estimate of the total variable manufacturing cost per unit is:

- A. \$89.50
 B. \$18.40
 C. \$71.10
 D. \$30.90

Total manufacturing overhead at 3,000 units = 3,000 units × \$33.80 per unit = \$101,400

Total manufacturing overhead at 1,000 units = 1,000 units × \$64.60 per unit = \$64,600

Variable manufacturing overhead per unit = Change in cost ÷ Change in activity

= (\$101,400 - \$64,600) ÷ (3,000 units - 1,000 units)

= \$36,800 ÷ 2,000 units

= \$18.40 per unit

Total variable manufacturing cost = Direct materials + Direct labor + Variable manufacturing overhead

= \$30.90 per unit + \$40.20 per unit + \$18.40 per unit

= \$89.50 per unit

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

88. Gambino Corporation is a wholesaler that sells a single product. Management has provided the following cost data for two levels of monthly sales volume. The company sells the product for \$138.80 per unit.

| | | |
|--|-----------|-----------|
| Sales volume (units) | 6,000 | 7,000 |
| Cost of sales | \$369,000 | \$430,500 |
| Selling and administrative costs | \$407,400 | \$418,600 |

The best estimate of the total monthly fixed cost is:

- A. \$776,400
- B. \$340,200**
- C. \$812,750
- D. \$849,100

$$\begin{aligned}
 \text{Variable cost of sales per unit} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$430,500 - \$369,000) \div (7,000 \text{ units} - 6,000 \text{ units}) \\
 &= \$61,500 \div 1,000 \text{ units} \\
 &= \$61.50 \text{ per unit}
 \end{aligned}$$

Fixed cost of sales:

| | |
|--|------------|
| Total cost at 7,000 units | \$430,500 |
| Less variable cost element: 7,000 units × \$61.50 per unit | 430,500 |
| Fixed cost | <u>\$0</u> |

$$\begin{aligned}
 \text{Variable selling and administrative cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$418,600 - \$407,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\
 &= \$11,200 \div 1,000 \text{ units} \\
 &= \$11.20 \text{ per unit}
 \end{aligned}$$

Fixed cost of sales:

| | |
|--|------------------|
| Total cost at 7,000 units | \$418,600 |
| Less variable cost element: 7,000 units × \$11.20 per unit | 78,400 |
| Fixed cost | <u>\$340,200</u> |

$$\text{Total fixed cost} = \$0 + \$340,200 = \$340,200$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

89. Iaci Corporation is a wholesaler that sells a single product. Management has provided the following cost data for two levels of monthly sales volume. The company sells the product for \$133.60 per unit.

| | | |
|--|-----------|-----------|
| Sales volume (units) | 4,000 | 5,000 |
| Cost of sales | \$383,600 | \$479,500 |
| Selling and administrative costs | \$124,400 | \$136,000 |

The best estimate of the total contribution margin when 4,300 units are sold is:

- A. \$112,230
- B. \$162,110
- C. \$28,380
- D. \$45,150

Used the high-low method to estimate variable components of the costs:

Variable cost of sales = Change in cost ÷ Change in activity

$$= (\$479,500 - \$383,600) \div (5,000 \text{ units} - 4,000 \text{ units})$$

$$= \$95,900 \div 1,000 \text{ units}$$

$$= \$95.90 \text{ per unit}$$

Variable selling and administrative cost = Change in cost ÷ Change in activity

$$= (\$136,000 - \$124,400) \div (5,000 \text{ units} - 4,000 \text{ units})$$

$$= \$11,600 \div 1,000 \text{ units}$$

$$= \$11.60 \text{ per unit}$$

Total variable cost per unit = Variable cost of sales + Variable selling and administrative cost

$$= \$95.90 \text{ per unit} + \$11.60 \text{ per unit} = \$107.50 \text{ per unit}$$

Contribution margin per unit = Selling price per unit - Total variable cost per unit

$$= \$133.60 \text{ per unit} - \$107.50 \text{ per unit} = \$26.10 \text{ per unit}$$

Total contribution margin = Contribution margin per unit × Total unit sales

$$= \$26.10 \text{ per unit} \times 4,300 \text{ units} = \$112,230$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

90. Maintenance costs at a Whetsel Corporation factory are listed below:

| | Machine-Hours | Maintenance Cost |
|-----------------|---------------|------------------|
| March | 3,135 | \$48,340 |
| April | 3,095 | \$47,993 |
| May | 3,133 | \$48,345 |
| June | 3,157 | \$48,548 |
| July | 3,065 | \$47,733 |
| August | 3,076 | \$47,830 |
| September | 3,084 | \$47,880 |
| October | 3,125 | \$48,247 |
| November | 3,098 | \$48,014 |

Management believes that maintenance cost is a mixed cost that depends on machine-hours. Use the high-low method to estimate the variable and fixed components of this cost. Compute the variable component first and round off to the nearest whole cent. Compute the fixed component second and round off to the nearest whole dollar. These estimates would be closest to:

- A. \$8.86 per machine-hour; \$20,577 per month
- B. \$0.11 per machine-hour; \$48,192 per month
- C. \$15.48 per machine-hour; \$48,103 per month
- D. \$8.81 per machine-hour; \$20,718 per month

| | Machine-Hours | Maintenance Cost |
|------------------------------------|---------------|------------------|
| High level of activity (June)..... | 3,157 | \$48,548 |
| Low level of activity (July)..... | 3,065 | 47,733 |
| Change | <u>92</u> | <u>\$ 815</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$815 \div 92 \text{ machine-hours}$$

$$= \$8.86 \text{ per machine-hour}$$

Fixed cost = Total cost - Variable cost element

$$= \$48,548 - (\$8.86 \text{ per machine-hour} \times 3,157 \text{ machine-hours})$$

$$= \$48,548 - \$27,971$$

$$= \$20,577$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

91. The following data pertains to activity and utility cost for two recent periods:

| | | |
|------------------------------|---------|---------|
| Activity level (units) | 8,000 | 5,000 |
| Utility cost | \$8,000 | \$6,150 |

Utility cost is a mixed cost with both fixed and variable components. Using the high-low method, the cost formula for utility cost is:

- A. $Y = \$1.00 X$
- B. $Y = \$1.25 X$
- C. $Y = \$4,000 + \$0.50 X$**
- D. $Y = \$1,500 + \$1.25 X$

| | Units | Utility Cost |
|------------------------------|--------------|----------------|
| High level of activity | 8,000 | \$8,000 |
| Low level of activity | 5,000 | 6,500 |
| Change | <u>3,000</u> | <u>\$1,500</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$1,500 \div 3,000 \text{ units}$$

$$= \$0.50 \text{ per unit}$$

Fixed cost = Total cost - Variable cost element

$$= \$8,000 - (\$0.50 \text{ per unit} \times 8,000 \text{ units})$$

$$= \$8,000 - \$4,000$$

$$= \$4,000$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

92. The following data pertains to activity and maintenance cost for two recent periods:

| | | |
|-----------------------------|----------|----------|
| Activity level (units)..... | 5,000 | 4,000 |
| Maintenance cost..... | \$16,750 | \$15,000 |

Maintenance cost is a mixed cost with both fixed and variable components. Using the high-low method, the cost formula for maintenance cost is:

- A.** $Y = \$8,000 + \$1.75 X$
- B. $Y = \$3.75 X$
- C. $Y = \$1,750 + \$3.35 X$
- D. $Y = \$3.35 X$

| | Units | Maintenance Cost |
|------------------------------|--------------|------------------|
| High level of activity | 5,000 | \$16,750 |
| Low level of activity | <u>4,000</u> | <u>15,000</u> |
| Change | <u>1,000</u> | <u>\$ 1,750</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$1,750 \div 1,000 \text{ units}$$

$$= \$1.75 \text{ per unit}$$

Fixed cost = Total cost - Variable cost element

$$= \$16,750 - (\$1.75 \text{ per unit} \times 5,000 \text{ units})$$

$$= \$16,750 - \$8,750$$

$$= \$8,000$$

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

93. Electrical costs at one of Kantola Corporation's factories are listed below:

| | Machine-Hours | Electrical Cost |
|-----------------|---------------|-----------------|
| February | 3,570 | \$36,405 |
| March | 3,580 | \$36,493 |
| April | 3,553 | \$36,302 |
| May | 3,627 | \$36,833 |
| June | 3,625 | \$36,800 |
| July | 3,565 | \$36,366 |
| August | 3,548 | \$36,237 |
| September | 3,542 | \$36,213 |
| October | 3,593 | \$36,577 |

Management believes that electrical cost is a mixed cost that depends on machine-hours. Use the high-low method to estimate the variable and fixed components of this cost. Compute the variable component first, rounding off to the nearest whole cent. Then compute the fixed component, rounding off to the nearest whole dollar. Those estimates are closest to:

- A. \$0.14 per machine-hour; \$36,336 per month
- B. \$10.19 per machine-hour; \$36,470 per month
- C. \$7.48 per machine-hour; \$9,708 per month
- D. \$7.29 per machine-hour; \$10,392 per month**

| | Machine-Hours | Electrical Cost |
|--|---------------|-----------------|
| High level of activity (May)..... | 3,627 | \$36,833 |
| Low level of activity (September)..... | 3,542 | 36,213 |
| Change | <u>85</u> | <u>\$ 620</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$620 \div 85 \text{ machine-hours}$$

$$= \$7.29 \text{ per machine-hour}$$

Fixed cost = Total cost - Variable cost element

$$= \$36,833 - (\$7.29 \text{ per machine-hour} \times 3,627 \text{ machine-hours})$$

$$= \$36,833 - \$26,441$$

$$= \$10,392$$

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

94. Oaklis Company has provided the following data for maintenance cost:

| | Prior Year | Current Year |
|-----------------------|------------|--------------|
| Machine hours..... | 10,000 | 12,000 |
| Maintenance cost..... | \$24,000 | \$27,600 |

Maintenance cost is a mixed cost with variable and fixed components. The fixed and variable components of maintenance cost are closest to:

- A. \$24,000 per year; \$2.30 per machine hour
- B. \$6,000 per year; \$1.80 per machine hour**
- C. \$6,000 per year; \$2.30 per machine hour
- D. \$24,000 per year; \$1.80 per machine hour

| | Machine-Hours | Maintenance Cost |
|------------------------------|---------------|------------------|
| High level of activity | 12,000 | \$27,600 |
| Low level of activity | <u>10,000</u> | <u>24,000</u> |
| Change | <u>2,000</u> | <u>\$ 3,600</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$3,600 \div 2,000 \text{ machine-hours}$$

$$= \$1.80 \text{ per machine-hour}$$

Fixed cost = Total cost - Variable cost element

$$= \$27,600 - (\$1.80 \text{ per machine-hour} \times 12,000 \text{ machine-hours})$$

$$= \$27,600 - \$21,600$$

$$= \$6,000$$

AACSB: Analytic
 AICPA BB: Critical Thinking

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

95. A soft drink bottler incurred the following factory utility cost: \$3,936 for 800 cases bottled and \$3,988 for 900 cases bottled. Factory utility cost is a mixed cost containing both fixed and variable components. The variable factory utility cost per case bottled is closest to:

- A. \$4.92
- B. \$0.52**
- C. \$4.43
- D. \$4.66

| | Units | Utility Cost |
|------------------------------|------------|--------------|
| High level of activity | 900 | \$3,988 |
| Low level of activity | <u>800</u> | <u>3,936</u> |
| Change | <u>100</u> | <u>\$ 52</u> |

$$\begin{aligned} \text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= \$52 \div 100 \text{ units} \\ &= \$0.52 \text{ per unit} \end{aligned}$$

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

96. Supply costs at Chobot Corporation's chain of gyms are listed below:

| | Client-Visits | Supply Cost |
|-----------------|---------------|-------------|
| January | 12,183 | \$26,642 |
| February | 12,408 | \$26,853 |
| March | 12,232 | \$26,675 |
| April | 12,597 | \$27,054 |
| May | 12,527 | \$26,988 |
| June | 12,608 | \$27,064 |
| July | 12,143 | \$26,585 |
| August | 12,005 | \$26,454 |
| September | 11,944 | \$26,393 |

Management believes that supply cost is a mixed cost that depends on client-visits. Use the high-low method to estimate the variable and fixed components of this cost. Compute the variable component first, rounding off to the nearest whole cent. Then compute the fixed component, rounding off to the nearest whole dollar. Those estimates are closest to:

- A. \$2.18 per client-visit; \$26,745 per month
- B. \$1.01 per client-visit; \$14,330 per month**
- C. \$1.04 per client-visit; \$13,949 per month
- D. \$0.99 per client-visit; \$14,607 per month

| | Client-Visits | Supply Cost |
|--|---------------|---------------|
| High level of activity (June)..... | 12,608 | \$27,064 |
| Low level of activity (September)..... | <u>11,944</u> | <u>26,393</u> |
| Change | <u>664</u> | <u>\$ 671</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$671 \div 664 \text{ client-visits}$$

$$= \$1.01 \text{ per client-visit}$$

Fixed cost = Total cost - Variable cost element

$$= \$27,064 - (\$1.01 \text{ per unit} \times 12,608 \text{ client-visits})$$

$$= \$27,064 - \$12,734$$

$$= \$14,330$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

97. Gabat Inc. is a merchandising company. Last month the company's merchandise purchases totaled \$67,000. The company's beginning merchandise inventory was \$19,000 and its ending merchandise inventory was \$22,000. What was the company's cost of goods sold for the month?

- A. \$108,000
- B. \$67,000
- C. \$64,000**
- D. \$70,000

Cost of goods sold = Beginning merchandise inventory + Purchases - Ending merchandise inventory = \$19,000 + \$67,000 - \$22,000 = \$64,000

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

98. Haab Inc. is a merchandising company. Last month the company's cost of goods sold was \$66,000. The company's beginning merchandise inventory was \$17,000 and its ending merchandise inventory was \$11,000. What was the total amount of the company's merchandise purchases for the month?

- A. \$72,000
- B. \$66,000
- C. \$94,000
- D.** \$60,000

Cost of goods sold = Beginning merchandise inventory + Purchases - Ending merchandise inventory

$$\$66,000 = \$17,000 + \text{Purchases} - \$11,000$$

$$\text{Purchases} = \$66,000 - \$17,000 + \$11,000 = \$60,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

The following cost data pertain to the operations of Rademaker Department Stores, Inc., for the month of March.

| | |
|---|----------|
| Corporate headquarters building lease..... | \$80,000 |
| Cosmetics Department sales commissions--Northridge Store..... | \$7,000 |
| Corporate legal office salaries..... | \$75,000 |
| Store manager's salary-Northridge Store..... | \$11,000 |
| Heating-Northridge Store..... | \$11,000 |
| Cosmetics Department cost of sales--Northridge Store..... | \$83,000 |
| Central warehouse lease cost..... | \$17,000 |
| Store security-Northridge Store..... | \$11,000 |
| Cosmetics Department manager's salary--Northridge Store..... | \$4,000 |

The Northridge Store is just one of many stores owned and operated by the company. The Cosmetics Department is one of many departments at the Northridge Store. The central warehouse serves all of the company's stores.

99. What is the total amount of the costs listed above that are direct costs of the Cosmetics Department?

- A. \$83,000
- B. \$94,000**
- C. \$90,000
- D. \$127,000

Direct costs of the Cosmetics Department = Cosmetics Department sales commissions + Cosmetics Department cost of sales + Cosmetics Department manager's salary = \$7,000 + \$83,000 + \$4,000 = \$94,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 1 Easy

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

100. What is the total amount of the costs listed above that are NOT direct costs of the Northridge Store?

- A. \$172,000
- B. \$33,000
- C. \$80,000
- D. \$94,000

Costs that are not direct costs of the Northridge Store = Corporate headquarters building lease + Corporate legal office salaries + Central warehouse lease cost = \$80,000 + \$75,000 + \$17,000 = \$172,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

The following cost data pertain to the operations of Bouffard Department Stores, Inc., for the month of May.

| | |
|---|----------|
| Corporate legal office salaries..... | \$68,000 |
| Shoe Department cost of sales--Brentwood Store..... | \$29,000 |
| Corporate headquarters building lease..... | \$86,000 |
| Store manager's salary--Brentwood Store..... | \$12,000 |
| Shoe Department sales commissions--Brentwood Store..... | \$5,000 |
| Store utilities--Brentwood Store..... | \$10,000 |
| Shoe Department manager's salary--Brentwood Store..... | \$4,000 |
| Central warehouse lease cost..... | \$7,000 |
| Janitorial costs--Brentwood Store..... | \$10,000 |

The Brentwood Store is just one of many stores owned and operated by the company. The Shoe Department is one of many departments at the Brentwood Store. The central warehouse serves all of the company's stores.

101. What is the total amount of the costs listed above that are direct costs of the Shoe Department?

- A. \$38,000
- B. \$29,000
- C. \$70,000
- D. \$34,000

Direct costs of the Shoe Department = Shoe Department cost of sales + Shoe Department sales commissions + Shoe Department manager's salary = \$29,000 + \$5,000 + \$4,000 = \$38,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

102. What is the total amount of the costs listed above that are NOT direct costs of the Brentwood Store?

- A. \$161,000
- B. \$86,000
- C. \$32,000
- D. \$38,000

Costs that are not direct costs of the Brentwood Store = Corporate legal office salaries + Corporate headquarters building lease + Central warehouse lease cost = \$68,000 + \$86,000 + \$7,000 = \$161,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Management of Lewallen Corporation has asked your help as an intern in preparing some key reports for September. Direct materials cost was \$57,000, direct labor cost was \$43,000, and manufacturing overhead was \$71,000. Selling expense was \$15,000 and administrative expense was \$32,000.

103. The conversion cost for September was:

- A. \$114,000
- B. \$131,000
- C. \$171,000
- D. \$103,000

Conversion cost = Direct labor + Manufacturing overhead = \$43,000 + \$71,000 = \$114,000

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

104. The prime cost for September was:

- A. \$114,000
- B. \$100,000
- C. \$103,000
- D. \$47,000

Prime cost = Direct materials + Direct labor = \$57,000 + \$43,000 = \$100,000

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period

costs.

Abare Corporation reported the following data for the month of December:

| | |
|------------------------------|----------|
| Direct materials..... | \$63,000 |
| Direct labor cost..... | \$52,000 |
| Manufacturing overhead..... | \$77,000 |
| Selling expense | \$26,000 |
| Administrative expense | \$36,000 |

105. The conversion cost for December was:

- A. \$134,000
- B. \$109,000
- C. \$192,000
- D. \$129,000**

Conversion cost = Direct labor + Manufacturing overhead = \$52,000 + \$77,000 =
\$129,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

106. The prime cost for December was:

- A. \$129,000
- B. \$115,000**
- C. \$109,000
- D. \$62,000

$$\text{Prime cost} = \text{Direct materials} + \text{Direct labor} = \$63,000 + \$52,000 = \$115,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Krimton Corporation's manufacturing costs last year consisted of \$150,000 of direct materials, \$200,000 of direct labor, \$40,000 of variable manufacturing overhead, and \$25,000 of fixed manufacturing overhead.

107. Prime cost was:

- A. \$150,000
- B. \$190,000
- C. \$350,000**
- D. \$415,000

$$\text{Prime cost} = \text{Direct materials} + \text{Direct labor} = \$150,000 + \$200,000 = \$350,000$$

AACSB: Analytic
AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

108. Conversion cost was:

- A. \$200,000
- B. \$240,000
- C. \$265,000**
- D. \$415,000

Conversion cost = Direct labor + Manufacturing overhead = \$200,000 + (\$40,000 + \$25,000) = \$265,000

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

A partial listing of costs incurred during December at Rooks Corporation appears below:

| | |
|--|-----------|
| Factory supplies | \$7,000 |
| Administrative wages and salaries | \$92,000 |
| Direct materials | \$176,000 |
| Sales staff salaries | \$32,000 |
| Factory depreciation | \$52,000 |
| Corporate headquarters building rent | \$47,000 |
| Indirect labor | \$23,000 |
| Marketing | \$136,000 |
| Direct labor | \$82,000 |

109. The total of the period costs listed above for December is:

- A. \$82,000
- B. \$340,000
- C. \$389,000
- D.** \$307,000

Period costs include administrative wages and salaries, sales staff salaries, corporate headquarters building rent, and marketing.

$$\$92,000 + \$32,000 + \$47,000 + \$136,000 = \$307,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

110. The total of the manufacturing overhead costs listed above for December is:

- A. \$30,000
- B.** \$82,000
- C. \$647,000
- D. \$340,000

Manufacturing overhead costs include factory supplies, factory depreciation, and indirect labor.

$$\$7,000 + \$52,000 + \$23,000 = \$82,000$$

AACSB: Analytic
AICPA BB: Critical Thinking

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

111. The total of the product costs listed above for December is:

- A.** \$340,000
- B. \$82,000
- C. \$647,000
- D. \$307,000

Product costs include factory supplies, direct materials, factory depreciation, indirect labor, and direct labor.

$$\$7,000 + \$176,000 + \$52,000 + \$23,000 + \$82,000 = \$340,000$$

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

A partial listing of costs incurred at Gilhooly Corporation during September appears below:

| | |
|--|-----------|
| Direct materials | \$183,000 |
| Utilities, factory | \$9,000 |
| Administrative salaries | \$90,000 |
| Indirect labor | \$25,000 |
| Sales commissions | \$33,000 |
| Depreciation of production equipment | \$25,000 |
| Depreciation of administrative equipment | \$32,000 |
| Direct labor | \$124,000 |
| Advertising | \$148,000 |

112. The total of the manufacturing overhead costs listed above for September is:

- A. \$669,000
- B. \$366,000
- C. \$34,000
- D.** \$59,000

Manufacturing overhead includes: Utilities, factory; Indirect labor; and Depreciation of production equipment.

$$\$9,000 + \$25,000 + \$25,000 = \$59,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

113. The total of the product costs listed above for September is:

- A. \$59,000
- B.** \$366,000
- C. \$669,000
- D. \$303,000

Product costs include: Direct materials; Utilities, factory; Indirect labor; Depreciation of production equipment; and Direct labor.

$$\$183,000 + \$9,000 + \$25,000 + \$25,000 + \$124,000 = \$366,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

114. The total of the period costs listed above for September is:

- A.** \$303,000
- B. \$59,000
- C. \$366,000
- D. \$362,000

Period costs include: Administrative salaries; Sales commissions; Depreciation of administrative equipment; and Advertising.

$$\$90,000 + \$33,000 + \$32,000 + \$148,000 = \$303,000$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

At a sales volume of 37,000 units, Maks Corporation's property taxes (a cost that is fixed with respect to sales volume) total \$802,900.

115. To the nearest whole dollar, what should be the total property taxes at a sales volume of 39,700 units? (Assume that this sales volume is within the relevant range.)

- A.** \$802,900
- B. \$748,295
- C. \$832,195
- D. \$861,490

\$802,900; A fixed cost is constant in total within the relevant range.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

116. To the nearest whole cent, what should be the average property tax per unit at a sales volume of 40,300 units? (Assume that this sales volume is within the relevant range.)

- A. \$21.70
- B. \$20.22
- C.** \$19.92
- D. \$20.81

Average property tax per unit = Total property tax ÷ Unit sales = \$802,900 ÷ 40,300 units
= \$19.92 per unit

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Corcetti Company manufactures and sells prewashed denim jeans. Large rolls of denim cloth are purchased and are first washed in a giant washing machine. After the cloth is dried, it is cut up into jean pattern shapes and then sewn together. The completed jeans are sold to various retail chains.

117. Which of the following terms could be used to correctly describe the cost of the soap used to wash the denim cloth?

| | Direct Cost | Product Cost |
|----|-------------|--------------|
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

- A. Option A
B. Option B
C. Option C
D. Option D

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Analyze

Difficulty: 1 Easy

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

118. Which of the following terms could be used to correctly describe the wages paid to the workers that cut up the cloth into the jean pattern shapes?

| | Conversion Cost | Variable Cost |
|----|-----------------|---------------|
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

- A.** Option A
- B. Option B
- C. Option C
- D. Option D

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

119. Which of the following terms could be used to correctly describe the cost of the thread used to sew the jeans together?

| | Manufacturing Overhead Cost | Fixed Cost |
|----|-----------------------------|------------|
| A) | Yes | Yes |
| B) | Yes | No |
| C) | No | Yes |
| D) | No | No |

- A. Option A
- B.** Option B
- C. Option C
- D. Option D

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 1 Easy

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

At an activity level of 8,300 machine-hours in a month, Baudry Corporation's total variable maintenance cost is \$220,448 and its total fixed maintenance cost is \$556,764.

120. What would be the total variable maintenance cost at an activity level of 8,600 machine-hours in a month? Assume that this level of activity is within the relevant range.

A. \$777,212

B. \$220,448

C. \$576,888

D. \$228,416

Variable maintenance cost per unit = Total variable maintenance cost ÷ Total activity
= \$220,448 ÷ 8,300 machine-hours

Total variable maintenance cost = Variable maintenance cost per unit × Total activity
= \$26.56 per machine-hour × 8,600 machine-hours
= \$228,416

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

121. What would be the average fixed maintenance cost per unit at an activity level of 8,600 machine-hours in a month? Assume that this level of activity is within the relevant range.

- A. \$93.64
- B. \$67.08
- C. \$64.74**
- D. \$75.15

Average fixed maintenance cost = Total fixed maintenance cost ÷ Total activity =
\$556,764 ÷ 8,600 machine-hours = \$64.74 per machine-hour

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Emerton Corporation leases its corporate headquarters building. This lease cost is fixed with respect to the company's sales volume. In a recent month in which the sales volume was 32,000 units, the lease cost was \$716,800.

122. To the nearest whole dollar, what should be the total lease cost at a sales volume of 30,900 units in a month? (Assume that this sales volume is within the relevant range.)

A. \$742,317

B. \$692,160

C. \$704,480

D. \$716,800

\$716,800; A fixed cost is constant in total within the relevant range.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

123. To the nearest whole cent, what should be the average lease cost per unit at a sales volume of 34,400 units in a month? (Assume that this sales volume is within the relevant range.)

A. \$23.20

B. \$21.62

C. \$20.84

D. \$22.40

Average lease cost per unit = Total lease cost ÷ Unit sales

= \$716,800 ÷ 34,400 units = \$20.84 per unit

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Hadrana Corporation reports that at an activity level of 5,500 units, its total variable cost is \$275,330 and its total fixed cost is \$86,240.

124. What would be the total variable cost at an activity level of 5,600 units? Assume that this level of activity is within the relevant range.

- A. \$275,330
- B. \$361,570
- C. \$87,808
- D.** \$280,336

$$\begin{aligned}\text{Variable cost per unit} &= \text{Total variable cost} \div \text{Total activity} \\ &= \$275,330 \div 5,500 \text{ units} \\ &= \$50.06 \text{ per unit}\end{aligned}$$

$$\begin{aligned}\text{Total variable cost} &= \text{Variable cost per unit} \times \text{Total activity} \\ &= \$50.06 \text{ per unit} \times 5,600 \text{ units} \\ &= \$280,336\end{aligned}$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

125. What would be the average fixed cost per unit at an activity level of 5,600 units? Assume that this level of activity is within the relevant range.

A. \$32.27

B. \$15.68

C. \$65.74

D. \$15.40

Average fixed cost per unit = Total fixed cost ÷ Total activity

= \$86,240 ÷ 5,600 units

= \$15.40 per unit

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

At a sales volume of 30,000 units, Carne Company's total fixed costs are \$30,000 and total variable costs are \$45,000. The relevant range is 20,000 to 40,000 units.

126. If Carne Company were to sell 32,000 units, the total expected cost would be:

- A. \$75,000
- B. \$78,000**
- C. \$80,000
- D. \$77,000

Variable cost per unit = Total variable cost ÷ Units = \$45,000 ÷ 30,000 = \$1.50 per unit

Total cost = Fixed cost + (Variable cost per unit × Units)

= \$30,000 + (\$1.50 per unit × 32,000 units) = \$78,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

127. If Carne Company were to sell 40,000 units, the total expected cost per unit would be:

- A. \$2.50
- B. \$2.25**
- C. \$2.13
- D. \$1.88

Variable cost per unit = Total variable cost ÷ Units = \$45,000 ÷ 30,000 = \$1.50 per unit

Total cost = Fixed cost + (Variable cost per unit × Units)

= \$30,000 + (\$1.50 per unit × 40,000 units) = \$90,000

Cost per unit = \$90,000 ÷ 40,000 units = \$2.25 per unit

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

At a sales volume of 35,000 units, Cly Corporation's sales commissions (a cost that is variable with respect to sales volume) total \$525,000.

128. To the nearest whole dollar, what should be the total sales commissions at a sales volume of 36,100 units? (Assume that this sales volume is within the relevant range.)

A. \$525,000

B. \$509,003

C. \$533,250

D. \$541,500

Sales commission per unit = Total sales commissions ÷ Unit sales = $\$525,000 \div 35,000$
= \$15.00

Total sales commission = Sales commission per unit × Unit sales = $\$15.00 \times 36,100$ =
\$541,500

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

129. To the nearest whole cent, what should be the average sales commission per unit at a sales volume of 33,600 units? (Assume that this sales volume is within the relevant range.)

- A. \$14.54
- B. \$15.00**
- C. \$15.63
- D. \$15.32

$$\begin{aligned} \text{Sales commission per unit} &= \text{Total sales commissions} \div \text{Unit sales} = \$525,000 \div 35,000 \\ &= \$15.00 \end{aligned}$$

The average sales commission per unit is constant within the relevant range.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Kodama Corporation staffs a helpline to answer questions from customers. The costs of operating the helpline are variable with respect to the number of calls in a month. At a volume of 30,000 calls in a month, the costs of operating the helpline total \$369,000.

130. To the nearest whole dollar, what should be the total cost of operating the helpline costs at a volume of 33,800 calls in a month? (Assume that this call volume is within the relevant range.)

- A. \$369,000
- B. \$327,515
- C. \$392,370
- D. \$415,740**

Helpline cost per unit = Total helpline costs ÷ Number of calls

= \$369,000 ÷ 30,000 calls

= \$12.30 per call

Total helpline cost = Helpline cost per unit × Number of calls

= \$12.30 per call × 33,800 calls = \$415,740

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

131. To the nearest whole cent, what should be the average cost of operating the helpline per call at a volume of 31,300 calls in a month? (Assume that this call volume is within the relevant range.)

- A.** \$12.30
- B. \$11.79
- C. \$10.92
- D. \$12.05

$$\begin{aligned}\text{Helpline cost per unit} &= \text{Total helpline costs} \div \text{Number of calls} \\ &= \$369,000 \div 30,000 \text{ calls} \\ &= \$12.30 \text{ per call}\end{aligned}$$

The average helpline cost per call is constant within the relevant range.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Erkkila Inc. reports that at an activity level of 6,400 machine-hours in a month, its total variable inspection cost is \$423,680 and its total fixed inspection cost is \$154,368.

132. What would be the average fixed inspection cost per unit at an activity level of 6,700 machine-hours in a month? Assume that this level of activity is within the relevant range.

- A. \$23.04
- B. \$90.32
- C. \$24.12
- D. \$45.83

$$\begin{aligned} \text{Average fixed inspection cost} &= \text{Total fixed inspection cost} \div \text{Total activity} \\ &= \$154,368 \div 6,700 \text{ machine-hours} \\ &= \$23.04 \text{ per machine-hour} \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

133. What would be the total variable inspection cost at an activity level of 6,700 machine-hours in a month? Assume that this level of activity is within the relevant range.

A. \$423,680

B. \$443,540

C. \$161,604

D. \$578,048

Variable inspection cost per unit = Total variable inspection cost ÷ Total activity
= \$423,680 ÷ 6,400 machine-hours
= \$66.20 per machine-hour

Total variable inspection cost = Variable inspection cost per unit × Total activity
= \$66.20 per machine-hour × 6,700 machine-hours
= \$443,540

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Comparative income statements for Tudor Retailing Company for the last two months are presented below:

| | September | October |
|---|------------------|------------------|
| Sales in units..... | 5,000 | 7,000 |
| Sales revenue..... | \$100,000 | \$140,000 |
| Cost of goods sold..... | <u>40,000</u> | <u>56,000</u> |
| Gross margin..... | 60,000 | 84,000 |
| Selling and administrative expenses: | | |
| Shipping expense..... | 7,500 | 10,500 |
| Clerical expense..... | 10,000 | 12,000 |
| Maintenance expense..... | <u>17,000</u> | <u>17,000</u> |
| Total selling and administrative expense..... | <u>34,500</u> | <u>39,500</u> |
| Net operating income..... | <u>\$ 25,500</u> | <u>\$ 44,500</u> |

134. Which of the following classifications best describes the behavior of shipping expense?

- A. Mixed
- B. Variable**
- C. Fixed
- D. none of these

| | September | October | Percentage Change |
|-----------------------|-----------|----------|-------------------|
| Sales in units..... | 5,000 | 7,000 | 40% |
| Shipping expense..... | \$7,500 | \$10,500 | 40% |

The shipping expense is proportional to the sales in units, so it is a variable cost.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

135. Which of the following classifications best describes the behavior of clerical expense?

- A. Mixed
- B. Variable
- C. Fixed
- D. none of these

| | September | October | Percentage Change |
|------------------------|-----------|----------|-------------------|
| Sales in units | 5,000 | 7,000 | 40% |
| Clerical expense | \$10,000 | \$12,000 | 20% |

The clerical expense increases 20% when the unit sales increase by 40%, so it is a mixed cost. It increases, but not proportionally with the increase in sales.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

136. If the Tudor Retailing Company uses the high-low method of analysis, the total monthly fixed cost for Tudor Retailing Company would be estimated to be:

- A. \$34,500
- B. \$17,000
- C. \$27,000
- D. \$22,000**

| | September | October |
|--------------------------------------|-----------------|-----------------|
| Sales in units..... | 5,000 | 7,000 |
| Cost of goods sold..... | \$40,000 | \$56,000 |
| Selling and administrative expenses: | | |
| Shipping expense..... | 7,500 | 10,500 |
| Clerical expense..... | 10,000 | 12,000 |
| Maintenance expense..... | 17,000 | 17,000 |
| Total expense..... | <u>\$74,500</u> | <u>\$95,500</u> |

| | Sales in Units | Cost Incurred |
|-------------------------------------|----------------|-----------------|
| High activity level (October)..... | 7,000 | \$95,500 |
| Low activity level (September)..... | 5,000 | \$74,500 |
| Change..... | <u>2,000</u> | <u>\$21,000</u> |

Variable cost = Change in cost ÷ Change in activity = \$21,000 ÷ 2,000 units = \$10.50 per unit

Fixed cost element = Total cost - Variable cost element = \$95,500 - (\$10.50 per unit × 7,000 units) = \$22,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

137. If the Tudor Retailing Company uses the high-low method of analysis, the total selling and administrative expense if Tudor Retailing Company sells 6,500 units during a month would be estimated to be:

- A. \$37,000
- B. \$44,850
- C. \$38,250**
- D. \$36,679

| | September | October |
|---|---------------|---------------|
| Sales in units..... | 5,000 | 7,000 |
| Selling and administrative expenses: | | |
| Shipping expense..... | 7,500 | 10,500 |
| Clerical expense..... | 10,000 | 12,000 |
| Maintenance expense..... | 17,000 | 17,000 |
| Total selling and administrative expense..... | <u>34,500</u> | <u>39,500</u> |

| | Sales in Units | Selling and Administrative Expense |
|-------------------------------------|----------------|------------------------------------|
| High activity level (October)..... | 7,000 | \$39,500 |
| Low activity level (September)..... | 5,000 | \$34,500 |
| Change..... | <u>2,000</u> | <u>\$5,000</u> |

Variable cost = Change in cost ÷ Change in activity = \$5,000 ÷ 2,000 units = \$2.50 per unit

Fixed cost element = Total cost - Variable cost element = \$39,500 - (\$2.50 per unit × 7,000 units) = \$22,000

Y = a + bX = \$22,000 + (\$2.50 per unit × 6,500 units) = \$38,250

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

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

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

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

138. Assuming Comco uses the high-low method of analysis, the fixed cost of maintenance would be estimated to be:

- A. \$14,500
- B. \$5,020
- C. \$13,000**
- D. \$12,320

| | Machine Hours | Maintenance Cost |
|--------------------------------------|---------------|------------------|
| High activity level (September)..... | 21,000 | \$26,020 |
| Low activity level (November) | 15,000 | \$22,300 |
| Change | <u>6,000</u> | <u>\$3,720</u> |

Variable cost = Change in cost ÷ Change in activity = \$3,720 ÷ 6,000 MHs = \$0.62 per MH

Fixed cost element = Total cost - Variable cost element
 = \$26,020 - (\$0.62 per MH × 21,000 MHs) = \$13,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

139. Assuming Comco uses the high-low method of analysis, if machine hours are budgeted to be 20,000 hours then the budgeted total maintenance cost would be expected to be:

- A. \$25,400
- B. \$25,560
- C. \$23,700
- D. \$24,720

| | Machine Hours | Maintenance Cost |
|--------------------------------------|---------------|------------------|
| High activity level (September)..... | 21,000 | \$26,020 |
| Low activity level (November)..... | 15,000 | \$22,300 |
| Change | 6,000 | \$3,720 |

Variable cost = Change in cost ÷ Change in activity = \$3,720 ÷ 6,000 MHs = \$0.62 per MH

Fixed cost element = Total cost - Variable cost element
 = \$26,020 - (\$0.62 per MH × 21,000 MHs) = \$13,000

Y = a + bX = \$13,000 + (\$0.62 per MH × 20,000 MHs) = \$25,400

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

The following production and average cost data for two levels of monthly production volume have been supplied by a company that produces a single product:

| Production volume | 1,000 units | 3,000 units |
|-----------------------------|------------------|------------------|
| Direct materials..... | \$13.20 per unit | \$13.20 per unit |
| Direct labor..... | \$14.50 per unit | \$14.50 per unit |
| Manufacturing overhead..... | \$65.40 per unit | \$29.40 per unit |

140. The best estimate of the total monthly fixed manufacturing cost is:

- A. \$65,400
- B. \$88,200
- C. \$93,100
- D. \$54,000**

Total manufacturing overhead at 1,000 units = 1,000 units × \$65.40 per unit = \$65,400

Total manufacturing overhead at 3,000 units = 3,000 units × \$29.40 per unit = \$88,200

| | Units Produced | Total Manufacturing Overhead |
|------------------------------|----------------|------------------------------|
| High level of activity | 3,000 | \$88,200 |
| Low level of activity | <u>1,000</u> | <u>65,400</u> |
| Change | <u>2,000</u> | <u>\$22,800</u> |

Variable cost per unit = Change in cost ÷ Change in activity

= \$22,800 ÷ 2,000 units

= \$11.40 per unit

Fixed cost = Total cost - Variable cost element

= \$88,200 - (\$11.40 per unit × 3,000 units)

= \$88,200 - \$34,200

= \$54,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 3 Hard

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

141. The best estimate of the total variable manufacturing cost per unit is:

- A. \$39.10
- B. \$27.70
- C. \$11.40
- D. \$13.20

Total manufacturing overhead at 1,000 units = 1,000 units × \$65.40 per unit = \$65,400

Total manufacturing overhead at 3,000 units = 3,000 units × \$29.40 per unit = \$88,200

| | Units Produced | Total Manufacturing Overhead |
|------------------------------|----------------|------------------------------|
| High level of activity | 3,000 | \$88,200 |
| Low level of activity | <u>1,000</u> | <u>65,400</u> |
| Change | <u>2,000</u> | <u>\$22,800</u> |

Variable cost per unit = Change in cost ÷ Change in activity

= \$22,800 ÷ 2,000 units

= \$11.40 per unit

Total variable cost per unit = Direct materials per unit + Direct labor per unit + variable manufacturing overhead per unit

= \$13.20 + \$14.50 + \$11.40

= \$39.10

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 3 Hard

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

142. The best estimate of the total cost to manufacture 1,200 units is closest to:

- A. \$68,520
- B. \$100,920**
- C. \$111,720
- D. \$90,120

From earlier parts, the total fixed cost is \$54,000 and the variable cost per unit is \$39.10.

$$\begin{aligned} \text{Total cost} &= \text{Total fixed cost} + \text{Total variable cost} \\ &= \$54,000 + (\$39.10 \text{ per unit} \times 1,200 \text{ units}) \\ &= \$54,000 + \$46,920 \\ &= \$100,920 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Frank Company operates a cafeteria for its employees. The number of meals served each week over the last seven weeks, along with the total costs of operating the cafeteria are given below:

| | Meals served | Cafeteria costs |
|------------|--------------|-----------------|
| Week 1.... | 1,500 | \$4,800 |
| Week 2.... | 1,600 | \$5,080 |
| Week 3.... | 1,800 | \$5,280 |
| Week 4.... | 1,450 | \$4,900 |
| Week 5.... | 1,200 | \$4,000 |
| Week 6.... | 1,650 | \$5,100 |
| Week 7.... | 1,900 | \$5,400 |

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

143. Using the high-low method of analysis, the variable cost per meal served in the cafeteria would be estimated to be:
- A. \$1.50
 - B. \$2.00**
 - C. \$2.80
 - D. \$1.00

| | Meals served | Cafeteria costs |
|-----------------------------------|--------------|-----------------|
| High activity level (Week 7)..... | 1,900 | \$5,400 |
| Low activity level (Week 5)..... | 1,200 | \$4,000 |
| Change..... | <u>700</u> | <u>\$1,400</u> |

Variable cost = Change in cost ÷ Change in activity = \$1,400 ÷ 700 meals = \$2.00 per meal

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

144. Assume that the cafeteria expects to serve 1,850 meals during Week 8. Using the high-low method, the expected total cost of the cafeteria would be:

- A. \$5,340
- B. \$5,180
- C. \$5,300**
- D. \$4,375

| | Meals served | Cafeteria costs |
|-----------------------------------|--------------|-----------------|
| High activity level (Week 7)..... | 1,900 | \$5,400 |
| Low activity level (Week 5)..... | 1,200 | \$4,000 |
| Change | 700 | \$1,400 |

Variable cost = Change in cost ÷ Change in activity = \$1,400 ÷ 700 meals = \$2.00 per meal

Fixed cost element = Total cost - Variable cost element
 = \$5,400 - (\$2.00 per meal × 1,900 meals) = \$1,600

Y = a + bX = \$1,600 + (\$2.00 per meal × 1,850 meals) = \$5,300

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Baker Corporation has provided the following production and total cost data for two levels of monthly production volume. The company produces a single product.

| Production volume | 6,000 units | 7,000 units |
|------------------------------|-------------|-------------|
| Direct materials | \$194,400 | \$226,800 |
| Direct labor | \$74,400 | \$86,800 |
| Manufacturing overhead | \$758,400 | \$779,800 |

145. The best estimate of the total monthly fixed manufacturing cost is:

- A. \$1,027,200
- B. \$1,060,300
- C. \$1,093,400
- D. \$630,000**

Direct materials is a variable cost.

Direct labor is usually a variable cost, but it doesn't hurt to check.

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$86,800 - \$74,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$12,400 \div 1,000 \text{ units} \\ &= \$12.40 \text{ per unit}\end{aligned}$$

$$\begin{aligned}\text{Fixed cost} &= \text{Total cost} - \text{Variable cost element} \\ &= \$86,800 - (\$12.40 \text{ per unit} \times 7,000 \text{ units}) \\ &= \$86,800 - 86,800 \\ &= \$0\end{aligned}$$

Manufacturing overhead:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$779,800 - \$758,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$21,400 \div 1,000 \text{ units} \\ &= \$21.40 \text{ per unit}\end{aligned}$$

$$\begin{aligned}\text{Fixed cost} &= \text{Total cost} - \text{Variable cost element} \\ &= \$779,800 - (\$21.40 \text{ per unit} \times 7,000 \text{ units}) \\ &= \$779,800 - \$149,800 \\ &= \$630,000\end{aligned}$$

$$\text{Total fixed cost per month} = \$0 + \$630,000 = \$630,000$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

146. The best estimate of the total variable manufacturing cost per unit is:

- A. \$32.40
- B. \$44.80
- C. \$66.20**
- D. \$21.40

Note: There are several ways to computer the variable cost per unit for direct materials and direct labor.

Direct materials:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$226,800 - \$194,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$32,400 \div 1,000 \text{ units} \\ &= \$32.40 \text{ per unit}\end{aligned}$$

Direct labor:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$86,800 - \$74,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$12,400 \div 1,000 \text{ units} \\ &= \$12.40 \text{ per unit}\end{aligned}$$

Manufacturing overhead

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$779,800 - \$758,400) \div (7,000 \text{ units} - 6,000 \text{ units}) \\ &= \$21,400 \div 1,000 \text{ units} \\ &= \$21.40 \text{ per unit}\end{aligned}$$

$$\begin{aligned}\text{Total variable cost per unit} &= \$32.40 \text{ per unit} + \$12.40 \text{ per unit} + \$21.40 \text{ per unit} \\ &= \$66.20 \text{ per unit}\end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

147. The best estimate of the total cost to manufacture 6,300 units is closest to:

- A. \$984,060
- B. \$1,031,310
- C. \$1,047,060**
- D. \$1,078,560

See earlier parts for the variable cost per unit and the total fixed cost.

$$\begin{aligned} \text{Total cost} &= \text{Total fixed cost} + \text{Total variable cost} \\ &= \$630,000 + (\$66.20 \text{ per units} \times 6,300 \text{ units}) \\ &= \$630,000 + \$417,060 \\ &= \$1,047,060 \end{aligned}$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Callis Corporation is a wholesaler that sells a single product. Management has provided the following cost data for two levels of monthly sales volume. The company sells the product for \$141.60 per unit.

| | | |
|--|-----------|-----------|
| Sales volume (units) | 5,000 | 6,000 |
| Cost of sales | \$265,500 | \$318,600 |
| Selling and administrative costs | \$393,500 | \$406,800 |

148. The best estimate of the total monthly fixed cost is:

- A. \$692,200
- B. \$725,400
- C. \$659,000
- D.** \$327,000

Cost of sales is a variable cost.

Selling and administrative costs:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$406,800 - \$393,500) \div (6,000 \text{ units} - 5,000 \text{ units}) \\ &= \$13,300 \div 1,000 \text{ units} \\ &= \$13.30 \text{ per unit}\end{aligned}$$

$$\begin{aligned}\text{Fixed cost} &= \text{Total cost} - \text{Variable cost element} \\ &= \$406,800 - (\$13.30 \text{ per unit} \times 6,000 \text{ units}) \\ &= \$406,800 - \$79,800 \\ &= \$327,000\end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

149. The best estimate of the total variable cost per unit is:

- A. \$131.80
- B. \$53.10
- C. \$66.40**
- D. \$120.90

Cost of sales:

Because cost of sales is a variable cost, there are several ways to compute the variable cost per unit. Here is one:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$318,600 - \$265,500) \div (6,000 \text{ units} - 5,000 \text{ units}) \\ &= \$53,100 \div 1,000 \text{ units} \\ &= \$53.10 \text{ per unit}\end{aligned}$$

Selling and administrative costs:

$$\begin{aligned}\text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= (\$406,800 - \$393,500) \div (6,000 \text{ units} - 5,000 \text{ units}) \\ &= \$13,300 \div 1,000 \text{ units} \\ &= \$13.30 \text{ per unit}\end{aligned}$$

$$\text{Total cost per unit} = \$53.10 \text{ per unit} + \$13.30 \text{ per unit} = \$66.40$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

150. The best estimate of the total contribution margin when 5,300 units are sold is:

- A. \$51,940
- B. \$469,050
- C. \$109,710
- D. \$398,560**

Contribution margin per unit = Selling price per unit - Variable cost per unit

= \$141.60 per unit - \$66.40 per unit

= \$75.20 per unit

Total contribution margin = Contribution margin per unit × Unit sales

= \$75.20 per unit × 5,300 units

= \$398,560

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Bee Company is a honey wholesaler. An income statement and other data for the second quarter of the year are given below:

Bee Company
Income Statement
For the Quarter Ended June 30

| | | | |
|--------------------------------------|-----------|-----------|--|
| Sales | | \$960,000 | |
| Cost of goods sold | | 420,000 | |
| Gross margin | | 540,000 | |
| Selling and administrative expenses: | | | |
| Selling | \$200,000 | | |
| Administrative | 75,000 | 275,000 | |
| Net operating income | | \$265,000 | |

Other data:

| | |
|------------------------------|---|
| Average selling price | \$60 per unit |
| Selling expenses | Fixed selling expenses plus 8% of sales |
| Administrative expense | Fixed administrative expenses plus \$2 per unit |

151. Bee Company's net operating income for the second quarter using the contribution approach is:

- A. \$156,200
- B. \$685,000
- C. \$431,200
- D. \$265,000**

$$\text{Unit sales} = \$960,000 \div \$60 \text{ per unit} = 16,000 \text{ units}$$

$$\text{Selling expenses} = \text{Fixed selling expenses} + (0.08 \times \text{Sales})$$

$$\$200,000 = \text{Fixed selling expenses} + (0.08 \times \$960,000)$$

$$\text{Fixed selling expenses} = \$200,000 - \$76,800 = \$123,200$$

$$\text{Administrative expenses} = \text{Fixed administrative expenses} + (\$2 \text{ per unit} \times 16,000 \text{ units})$$

$$\$75,000 = \text{Fixed administrative expenses} + (\$2 \text{ per unit} \times 16,000 \text{ units})$$

$$\text{Fixed administrative expenses} = \$75,000 - \$32,000 = \$43,000$$

| | | |
|---|-----------|------------------|
| Sales | | \$960,000 |
| Variable expenses: | | |
| Cost of goods sold | \$420,000 | |
| Variable selling (8% of \$960,000) | 76,800 | |
| Variable administrative (\$2 per unit x 16,000 units) | 32,000 | 528,800 |
| Contribution margin | | <u>431,200</u> |
| Fixed expenses: | | |
| Fixed selling | 123,200 | |
| Fixed administrative | 43,000 | 166,200 |
| Net operating income | | <u>\$265,000</u> |

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

152. Bee Company's contribution margin for the second quarter is:

- A. \$463,200
- B. \$540,000
- C. \$851,200
- D. \$431,200**

Unit sales = $\$960,000 \div \$60 \text{ per unit} = 16,000 \text{ units}$

| | | |
|---|-----------|------------------|
| Sales | | \$960,000 |
| Variable expenses: | | |
| Cost of goods sold | \$420,000 | |
| Variable selling (8% of \$960,000) | 76,800 | |
| Variable administrative (\$2 per unit x 16,000 units) | 32,000 | 528,800 |
| Contribution margin | | <u>\$431,200</u> |

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

153. Bee Company's cost formula for total selling and administrative expenses, with "X" equal to the number of units sold would be:

- A. $Y = \$123,200 + \$4.80X$
- B. $Y = \$123,200 + \$6.80X$
- C. $Y = \$275,000 + \$4.80X$
- D. $Y = \$166,200 + \$6.80X$**

$$\text{Unit sales} = \$960,000 \div \$60 \text{ per unit} = 16,000 \text{ units}$$

$$\text{Selling expenses} = \text{Fixed selling expenses} + (0.08 \times \text{Sales})$$

$$\$200,000 = \text{Fixed selling expenses} + (0.08 \times \$960,000)$$

$$\text{Fixed selling expenses} = \$200,000 - \$76,800 = \$123,200$$

$$\text{Variable selling expense per unit} = 0.08 \times \$60 \text{ per unit} = \$4.80 \text{ per unit}$$

$$\text{Administrative expenses} = \text{Fixed administrative expenses} + (\$2 \text{ per unit} \times 16,000 \text{ units})$$

$$\$75,000 = \text{Fixed administrative expenses} + (\$2 \text{ per unit} \times 16,000 \text{ units})$$

$$\text{Fixed administrative expenses} = \$75,000 - \$32,000 = \$43,000$$

$$\begin{aligned} \text{Total selling and administrative expenses} &= (\$123,200 + \$43,000) + (\$4.80 + \$2.00) X \\ &= \$166,200 + \$6.80X \end{aligned}$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

154. If 24,000 units are sold during the third quarter and this activity is within the relevant range, Bee Company's expected contribution margin would be:

- A. \$646,800
- B. \$762,000
- C. \$810,000
- D. \$760,080

Unit sales = \$960,000 ÷ \$60 per unit = 16,000 units

Cost of goods sold per unit = \$420,000 ÷ 16,000 units = \$26.25 per unit

| | | |
|---|-----------|------------------|
| Sales (\$60 per unit x 24,000 units)..... | | \$1,440,000 |
| Variable expenses: | | |
| Cost of goods sold (\$26.25 per unit x 24,000 units)..... | \$630,000 | |
| Variable selling (8% of \$1,440,000)..... | 115,200 | |
| Variable administrative (\$2 per unit x 24,000 units) | 48,000 | 793,200 |
| Contribution margin..... | | <u>\$646,800</u> |

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Electrical costs at one of Reifel Corporation's factories are listed below:

| | Machine-Hours | Electrical Cost |
|-----------------|---------------|-----------------|
| March | 413 | \$7,371 |
| April | 506 | \$7,740 |
| May | 435 | \$7,447 |
| June | 486 | \$7,660 |
| July | 499 | \$7,704 |
| August | 461 | \$7,563 |
| September | 467 | \$7,571 |
| October | 458 | \$7,522 |
| November | 425 | \$7,403 |

Management believes that electrical cost is a mixed cost that depends on machine-hours.

155. Using the high-low method, the estimate of the variable component of electrical cost per machine-hour is closest to:

- A. \$0.12
- B. \$20.38
- C. \$7.98
- D. \$3.97**

| | Machine-Hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High level of activity (April)..... | 506 | \$7,740 |
| Low level of activity (March)..... | 413 | 7,371 |
| Change | <u>93</u> | <u>\$ 369</u> |

Variable cost per unit = Change in cost ÷ Change in activity

= \$369 ÷ 93 machine-hours

= \$3.97 per machine hour

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

156. Using the high-low method, the estimate of the fixed component of electrical cost per month is closest to:

- A. \$7,371
- B. \$5,731**
- C. \$5,875
- D. \$5,840

| | Machine-Hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High level of activity (April)..... | 506 | \$7,740 |
| Low level of activity (March)..... | 413 | 7,371 |
| Change | 93 | \$ 369 |

Variable cost per unit = Change in cost ÷ Change in activity
 = \$369 ÷ 93 machine-hours
 = \$3.97 per machine hour

Total fixed cost = Total cost - Variable cost element
 = \$7,740 - (\$3.97 per machine-hour × 506 machine-hours)
 = \$7,740 - \$2,009
 = \$5,731

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Cardillo Inc., an escrow agent, has provided the following data concerning its office expenses:

| | Escrows Completed | Office Expenses |
|-----------------|-------------------|-----------------|
| January | 99 | \$13,181 |
| February | 111 | \$13,598 |
| March | 129 | \$14,239 |
| April | 133 | \$14,357 |
| May | 152 | \$15,095 |
| June | 104 | \$13,335 |
| July | 118 | \$13,847 |
| August | 100 | \$13,211 |
| September | 103 | \$13,283 |

Management believes that office expense is a mixed cost that depends on the number of escrows completed. Note: Real estate purchases usually involve the services of an escrow agent that holds funds and prepares documents to complete the transaction.

157. Using the high-low method, the estimate of the variable component of office expense per escrow completed is closest to:

- A. \$26.75
- B. \$118.23
- C. \$36.11**
- D. \$72.49

| | Escrows Completed | Office Expenses |
|---------------------------------------|-------------------|-----------------|
| High level of activity (May) | 152 | \$15,095 |
| Low level of activity (January) | 99 | 13,181 |
| Change | <u>53</u> | <u>\$1,914</u> |

$$\begin{aligned} \text{Variable cost per unit} &= \text{Change in cost} \div \text{Change in activity} \\ &= \$1,914 \div 53 \text{ escrows} \\ &= \$36.11 \text{ per escrow} \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

158. Using the high-low method, the estimate of the fixed component of office expense per month is closest to:

- A. \$9,606
- B. \$13,485
- C. \$13,181
- D. \$13,793

| | Escrows Completed | Office Expenses |
|--------------------------------------|-------------------|-----------------|
| High level of activity (May)..... | 152 | \$15,095 |
| Low level of activity (January)..... | <u>99</u> | <u>13,181</u> |
| Change | <u>53</u> | <u>\$1,914</u> |

Variable cost per unit = Change in cost ÷ Change in activity

$$= \$1,914 \div 53 \text{ escrows}$$

$$= \$6.11 \text{ per escrow}$$

Total fixed cost = Total cost - Variable cost element

$$= \$15,095 - (\$6.11 \text{ per escrow} \times 152 \text{ escrows})$$

$$= \$15,095 - \$5,489$$

$$= \$9,606$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Data concerning Nelson Company's activity for the first six months of the year appear below:

| | Machine Hours | Electrical Cost |
|----------------|---------------|-----------------|
| January | 4,000 | \$3,120 |
| February | 6,000 | \$4,460 |
| March | 4,800 | \$3,500 |
| April | 3,800 | \$3,040 |
| May | 3,600 | \$2,900 |
| June | 4,200 | \$3,200 |

159. Using the high-low method of analysis, the estimated variable electrical cost per machine hour is:

- A. \$0.65
- B. \$0.40
- C. \$0.70
- D. \$0.67

| | Machine-hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High activity level (February)..... | 6,000 | \$4,460 |
| Low activity level (May) | 3,600 | \$2,900 |
| Change | <u>2,400</u> | <u>\$1,560</u> |

Variable cost = Change in cost ÷ Change in activity

Variable cost = \$1,560 ÷ 2,400 machine-hours = \$0.65 per machine-hour

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

160. Using the high-low method of analysis, the estimated monthly fixed component of the electrical cost is:

- A. \$1,520
- B. \$440
- C. \$260
- D.** \$560

| | Machine-hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High activity level (February)..... | 6,000 | \$4,460 |
| Low activity level (May) | 3,600 | \$2,900 |
| Change | <u>2,400</u> | <u>\$1,560</u> |

Variable cost = Change in cost ÷ Change in activity

Variable cost = \$1,560 ÷ 2,400 machine-hours = \$0.65 per machine-hour

Fixed cost = Total cost - Variable cost

Fixed cost = \$4,460 - (\$0.65 per machine-hour × 6,000 machine-hours) = \$560

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Inspection costs at one of Luliano Corporation's factories are listed below:

| | Units Produced | Inspection Cost |
|-----------------|----------------|-----------------|
| February | 905 | \$16,212 |
| March | 949 | \$16,600 |
| April | 911 | \$16,265 |
| May | 895 | \$16,110 |
| June | 917 | \$16,294 |
| July | 902 | \$16,180 |
| August | 919 | \$16,332 |
| September | 859 | \$15,760 |
| October | 898 | \$16,138 |

Management believes that inspection cost is a mixed cost that depends on units produced.

161. Using the high-low method, the estimate of the variable component of inspection cost per unit produced is closest to:

- A. \$10.57
- B. \$0.11
- C. \$17.89
- D. \$9.33**

| | Units Produced | Inspection Cost |
|--------------------------------------|----------------|-----------------|
| High level of activity (March)..... | 949 | \$16,600 |
| Low level of activity (September)... | 859 | 15,760 |
| Change | <u>90</u> | <u>\$ 840</u> |

Variable cost per unit = Change in cost ÷ Change in activity

= \$840 ÷ 90 units

= \$9.33 per unit

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

162. Using the high-low method, the estimate of the fixed component of inspection cost per month is closest to:

- A. \$16,210
- B. \$7,746**
- C. \$15,761
- D. \$16,111

| | Units Produced | Inspection Cost |
|--------------------------------------|----------------|-----------------|
| High level of activity (March)..... | 949 | \$16,600 |
| Low level of activity (September)... | <u>859</u> | <u>15,760</u> |
| Change | <u>90</u> | <u>\$ 840</u> |

Variable cost per unit = Change in cost ÷ Change in activity

= \$840 ÷ 90 units

= \$9.33 per unit

Total fixed cost = Total cost - Variable cost element

= \$16,600 - (\$9.33 per unit × 949 units)

= \$16,600 - \$8,854

= \$7,746

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Farnor, Inc., would like to estimate the variable and fixed components of its electrical costs and has compiled the following data for the last four months of operations.

| | Machine Hours | Electrical Cost |
|----------------|---------------|-----------------|
| January | 30 | \$75 |
| February | 42 | \$90 |
| March | 35 | \$81 |
| April | 20 | \$68 |

163. Using the high-low method of analysis, the estimated variable cost per machine hour for electricity is closest to:

- A. \$3.40
- B. \$2.14
- C. \$1.00**
- D. \$0.87

| | Machine Hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High activity level (February)..... | 42 | \$90 |
| Low activity level (April)..... | 20 | \$68 |
| Change | <u>22</u> | <u>\$22</u> |

Variable cost = Change in cost ÷ Change in activity

Variable cost = \$22 ÷ 22 machine-hours = \$1.00 per machine-hour

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

164. Using the high-low method of analysis, the estimated fixed cost per month for electricity is closest to:

- A. \$53.46
- B. \$0.00
- C. \$3.40
- D. \$48.00**

| | Machine Hours | Electrical Cost |
|-------------------------------------|---------------|-----------------|
| High activity level (February)..... | 42 | \$90 |
| Low activity level (April)..... | 20 | \$68 |
| Change..... | 22 | \$22 |

Variable cost = Change in cost ÷ Change in activity

Variable cost = \$22 ÷ 22 machine-hours = \$1.00 per machine-hour

Fixed cost = Total cost - Variable cost

Fixed cost = \$90 - (\$1.00 per machine-hour × 42 machine-hours) = \$48

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Calip Corporation, a merchandising company, reported the following results for October:

| | |
|--|-----------|
| Sales | \$433,000 |
| Cost of goods sold (all variable)..... | \$173,000 |
| Total variable selling expense..... | \$18,000 |
| Total fixed selling expense | \$9,900 |
| Total variable administrative expense..... | \$10,000 |
| Total fixed administrative expense | \$25,600 |

165. The gross margin for October is:

- A. \$232,000
- B. \$260,000**
- C. \$397,500
- D. \$196,500

| | |
|--------------------------|------------------|
| Sales | \$433,000 |
| Cost of goods sold | 173,000 |
| Gross margin..... | <u>\$260,000</u> |

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

166. The contribution margin for October is:

- A. \$260,000
- B. \$232,000**
- C. \$196,500
- D. \$369,500

| | | |
|-------------------------------------|-----------|------------------|
| Sales | | \$433,000 |
| Variable expenses: | | |
| Cost of goods sold | \$173,000 | |
| Variable selling expense | 18,000 | |
| Variable administrative expense ... | 10,000 | 201,000 |
| Contribution margin..... | | <u>\$232,000</u> |

AACSB: Analytic

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Tolden Marketing, Inc., a merchandising company, reported sales of \$2,861,800 and cost of goods sold of \$1,492,400 for December. The company's total variable selling expense was \$77,900; its total fixed selling expense was \$70,600; its total variable administrative expense was \$98,400; and its total fixed administrative expense was \$193,400. The cost of goods sold in this company is a variable cost.

167. The contribution margin for December is:

- A. \$1,369,400
- B. \$2,421,500
- C. \$1,193,100**
- D. \$929,100

| | | |
|-------------------------------------|-------------|--------------------|
| Sales | | \$2,861,800 |
| Variable expenses: | | |
| Cost of goods sold | \$1,492,400 | |
| Variable selling expense | 77,900 | |
| Variable administrative expense ... | 98,400 | 1,668,700 |
| Contribution margin..... | | <u>\$1,193,100</u> |

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

168. The gross margin for December is:

- A. \$1,193,100
- B. \$929,100
- C. \$1,369,400**
- D. \$2,597,800

| | |
|--------------------------|--------------------|
| Sales | \$2,861,800 |
| Cost of goods sold | 1,492,400 |
| Gross margin..... | <u>\$1,369,400</u> |

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Ence Sales, Inc., a merchandising company, reported sales of 6,400 units in April at a selling price of \$684 per unit. Cost of goods sold, which is a variable cost, was \$455 per unit. Variable selling expenses were \$30 per unit and variable administrative expenses were \$40 per unit. The total fixed selling expenses were \$156,800 and the total administrative expenses were \$260,400.

169. The contribution margin for April was:

- A. \$1,017,600
- B. \$1,465,600
- C. \$600,400
- D. \$3,512,400

| | | |
|--|-------------|---------------------------|
| Sales (6,400 units × \$684 per unit)..... | | \$4,377,600 |
| Variable expenses: | | |
| Cost of goods sold (6,400 units × \$455 per unit) | \$2,912,000 | |
| Variable selling expense (6,400 units × \$30 per unit)..... | 192,000 | |
| Variable administrative expense (6,400 units × \$40 per unit) .. | 256,000 | <u>3,360,000</u> |
| Contribution margin..... | | <u>\$1,017,600</u> |

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

170. The gross margin for April was:

- A. \$1,465,600
- B. \$3,960,400
- C. \$1,017,600
- D. \$600,400

| | |
|---|---------------------------|
| Sales (6,400 units × \$684 per unit)..... | \$4,377,600 |
| Cost of goods sold (6,400 units × \$455 per unit) | <u>2,912,000</u> |
| Gross margin..... | <u>\$1,465,600</u> |

AACSB: Analytic
AICPA BB: Critical Thinking

Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Nieman Inc., a local retailer, has provided the following data for the month of March:

| | |
|--|-----------|
| Merchandise inventory, beginning balance | \$30,000 |
| Merchandise inventory, ending balance..... | \$34,000 |
| Sales | \$280,000 |
| Purchases of merchandise inventory..... | \$146,000 |
| Selling expense | \$27,000 |
| Administrative expense | \$64,000 |

171. The cost of goods sold for March was:

- A. \$146,000
- B. \$150,000
- C. \$142,000**
- D. \$237,000

$$\begin{aligned}\text{Cost of goods sold} &= \text{Beginning merchandise inventory} + \text{Purchases of merchandise} \\ &\text{inventory} - \text{Ending merchandise inventory} \\ &= \$30,000 + \$146,000 - \$34,000 \\ &= \$142,000\end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

172. The net operating income for March was:

- A. \$130,000
- B. \$134,000
- C. \$43,000
- D. \$47,000**

$$\begin{aligned} \text{Net operating income} &= \text{Sales} - \text{Cost of goods sold} - \text{Selling and administrative expenses} \\ &= \$280,000 - \$142,000 - (\$27,000 + \$64,000) \\ &= \$47,000 \end{aligned}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Searls Corporation, a merchandising company, reported the following results for July:

| | |
|---|----------------|
| Number of units sold | 2,700 units |
| Selling price per unit..... | \$664 per unit |
| Unit cost of goods sold | \$405 per unit |
| Variable selling expense per unit..... | \$48 per unit |
| Total fixed selling expense..... | \$56,500 |
| Variable administrative expense per unit..... | \$13 per unit |
| Total fixed administrative expense | \$118,200 |

Cost of goods sold is a variable cost in this company.

173. The gross margin for July is:

- A. \$1,618,100
- B. \$699,300**
- C. \$359,900
- D. \$534,600

| | |
|---|------------------|
| Sales (2,700 units × \$664 per unit)..... | \$1,792,800 |
| Cost of goods sold (2,700 units × \$405 per unit) | 1,093,500 |
| Gross margin..... | <u>\$699,300</u> |

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Apply
 Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

174. The contribution margin for July is:

- A. \$534,600**
- B. \$699,300
- C. \$359,900
- D. \$1,453,400

| | |
|--|------------------|
| Sales (2,700 units × \$664 per unit)..... | \$1,792,800 |
| Variable expenses: | |
| Cost of goods sold (2,700 units × \$405 per unit) | \$1,093,500 |
| Variable selling expense (2,700 units × \$48 per unit)..... | 129,600 |
| Variable administrative expense (2,700 units × \$13 per unit) .. | 35,100 |
| Contribution margin..... | <u>\$534,600</u> |

AACSB: Analytic
 AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.

Dechico Corporation purchased a machine 3 years ago for \$456,000 when it launched product G92L. Unfortunately, this machine has broken down and cannot be repaired. The machine could be replaced by a new model 330 machine costing \$474,000 or by a new model 260 machine costing \$418,000. Management has decided to buy the model 260 machine. It has less capacity than the model 330 machine, but its capacity is sufficient to continue making product G92L. Management also considered, but rejected, the alternative of dropping product G92L and not replacing the old machine. If that were done, the \$418,000 invested in the new machine could instead have been invested in a project that would have returned a total of \$496,000.

175. In making the decision to buy the model 260 machine rather than the model 330 machine, the differential cost was:

A. \$18,000

B. \$56,000

C. \$38,000

D. \$40,000

Differential cost = \$474,000 - \$418,000 = \$56,000

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Blooms: Apply

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

2-1412-141

176. In making the decision to buy the model 260 machine rather than the model 330 machine, the sunk cost was:

- A. \$418,000
- B. \$456,000**
- C. \$474,000
- D. \$496,000

Sunk cost = Cost of old machine = \$456,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

177. In making the decision to invest in the model 260 machine, the opportunity cost was:

- A. \$418,000
- B. \$456,000
- C. \$474,000
- D. \$496,000**

Opportunity cost = Return from alternative investment = \$496,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

and sunk costs.

Management of Childers Corporation is considering whether to purchase a new model 380 machine costing \$278,000 or a new model 230 machine costing \$207,000 to replace a machine that was purchased 3 years ago for \$266,000. The old machine was used to make product R16K until it broke down last week. Unfortunately, the old machine cannot be repaired.

Management has decided to buy the new model 230 machine. It has less capacity than the new model 380 machine, but its capacity is sufficient to continue making product R16K. Management also considered, but rejected, the alternative of simply dropping product R16K. If that were done, instead of investing \$207,000 in the new machine, the money could be invested in a project that would return a total of \$305,000.

178. In making the decision to buy the model 230 machine rather than the model 380 machine, the sunk cost was:

- A. \$305,000
- B. \$266,000**
- C. \$278,000
- D. \$207,000

Sunk cost = Cost of old machine = \$266,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

179. In making the decision to buy the model 230 machine rather than the model 380 machine, the differential cost was:

- A.** \$71,000
- B. \$59,000
- C. \$12,000
- D. \$39,000

$$\text{Differential cost} = \$278,000 - \$207,000 = \$71,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

180. In making the decision to invest in the model 230 machine, the opportunity cost was:

- A. \$278,000
- B.** \$305,000
- C. \$207,000
- D. \$266,000

$$\text{Opportunity cost} = \text{Return from alternative investment} = \$305,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

and sunk costs.

Essay Questions

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs;

2-1452-145

181. A number of costs are listed below.

| | Cost Description | Cost Object |
|-----|--|--------------------------------|
| 1. | Cost of a measles vaccine administered at an outpatient clinic at a hospital | The outpatient clinic |
| 2. | Cost of a replacement battery installed in a car at the auto repair shop of an automobile dealer | The auto repair shop |
| 3. | Accounting professor's salary | A particular class |
| 4. | Cost of electronic navigation system installed in a yacht at a yacht manufacturer | A particular yacht |
| 5. | Cost of wiring used in making a personal computer | A particular personal computer |
| 6. | Supervisor's wages in a computer manufacturing facility | A particular personal computer |
| 7. | Cost of lubrication oil used at the auto repair shop of an automobile dealer | The auto repair shop |
| 8. | Cost of heating a hotel run by a chain of hotels | A particular hotel guest |
| 9. | Cost of heating a hotel run by a chain of hotels | The particular hotel |
| 10. | Cost of tongue depressors used in an outpatient clinic at a hospital | A particular patient |

Required:

For each item above, indicate whether the cost is direct or indirect with respect to the cost object listed next to it.

1. Cost of a measles vaccine administered at an outpatient clinic at a hospital; The outpatient clinic; Direct
2. Cost of a replacement battery installed in a car at the auto repair shop of an automobile dealer; The auto repair shop; Direct
3. Accounting professor's salary; A particular class; Indirect
4. Cost of electronic navigation system installed in a yacht at a yacht manufacturer; A particular yacht; Direct
5. Cost of wiring used in making a personal computer; A particular personal computer; Indirect
6. Supervisor's wages in a computer manufacturing facility; A particular personal computer; Indirect
7. Cost of lubrication oil used at the auto repair shop of an automobile dealer; The auto repair shop; Direct
8. Cost of heating a hotel run by a chain of hotels; A particular hotel guest; Indirect
9. Cost of heating a hotel run by a chain of hotels; The particular hotel; Direct

10. Cost of tongue depressors used in an outpatient clinic at a hospital; A particular

patient; Indirect

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-01 Understand cost classifications used for assigning costs to cost objects: direct costs and indirect costs.

182. The Plastech Company began operations several years ago. The company's product requires materials that cost \$25 per unit. The company employs a production supervisor whose salary is \$2,000 per month. Production line workers are paid \$15 per hour to manufacture and assemble the product. The company rents the equipment needed to produce the product at a rental cost of \$1,500 per month. The building is depreciated on the straight-line basis at \$9,000 per year.

The company spends \$40,000 per year to market the product. Shipping costs for each unit are \$20 per unit.

The company plans to liquidate several investments in order to expand production. These investments currently earn a return of \$8,000 per year.

Required:

Complete the answer sheet below by placing an "X" under each heading that identifies the cost involved. The "Xs" can be placed under more than one heading for a single cost, e.g., a cost might be a sunk cost, an overhead cost, and a product cost.

| | Variable Cost | Fixed Cost | Direct Materials Cost | Direct Materials Cost | Direct Labor Cost | Manufacturing Overhead Cost | Period Cost | Opportunity Cost | Sunk Cost |
|-------------------------------|---------------|------------|-----------------------|-----------------------|-------------------|-----------------------------|-------------|------------------|-----------|
| Materials | | | | | | | | | |
| Production supervisor salary | | | | | | | | | |
| Production line worker wages | | | | | | | | | |
| Equipment rental | | | | | | | | | |
| Building depreciation | | | | | | | | | |
| Marketing costs | | | | | | | | | |
| Shipping cost | | | | | | | | | |
| Return on present investments | | | | | | | | | |

| | Variable Cost | Fixed Cost | Direct Materials Cost | Direct Materials Cost | Direct Labor Cost | Manufacturing Overhead Cost | Period Cost | Opportunity Cost | Sunk Cost |
|-------------------------------|---------------|------------|-----------------------|-----------------------|-------------------|-----------------------------|-------------|------------------|-----------|
| Materials | X | | | X | | | | | |
| Production supervisor salary | | X | | | | X | | | |
| Production line worker wages | X | | | | X | | | | |
| Equipment rental | | X | | | | X | | | |
| Building depreciation | | X | | | | X | | | |
| Marketing costs | | X | | | | | X | | |
| Shipping cost | X | | | | | | X | | |
| Return on present investments | | | | | | | | X | |

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-02 Identify and give examples of each of the three basic manufacturing cost categories.

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-07 Understand cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.

183. A partial listing of costs incurred at Falkenberg Corporation during October appears below:

| | |
|---|-----------|
| Direct materials..... | \$195,000 |
| Utilities, factory..... | 9,000 |
| Sales commissions..... | 75,000 |
| Administrative salaries..... | 113,000 |
| Indirect labor..... | 30,000 |
| Advertising..... | 119,000 |
| Depreciation of production equipment..... | 28,000 |
| Direct labor..... | 105,000 |
| Depreciation of administrative equipment..... | 44,000 |

Required:

- What is the total amount of product cost listed above? Show your work.
- What is the total amount of period cost listed above? Show your work.

a. Product costs consist of direct materials, direct labor, and manufacturing overhead:

| | | |
|--|-----------|------------------|
| Direct materials..... | \$195,000 | |
| Direct labor..... | 105,000 | |
| Manufacturing overhead: | | |
| Utilities, factory..... | 9,000 | |
| Indirect labor..... | 30,000 | |
| Depreciation of production equipment.... | 28,000 | 67,000 |
| Total product cost..... | | <u>\$367,000</u> |

b. Period costs consist of all costs other than product costs:

| | |
|---|------------------|
| Sales commissions..... | \$75,000 |
| Administrative salaries..... | 113,000 |
| Advertising..... | 119,000 |
| Depreciation of administrative equipment..... | 44,000 |
| Total period cost..... | <u>\$351,000</u> |

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

184. Sobota Corporation has provided the following partial listing of costs incurred during August:

| | |
|---|-----------|
| Marketing salaries..... | \$49,000 |
| Property taxes, factory..... | \$7,000 |
| Administrative travel..... | \$104,000 |
| Sales commissions..... | \$49,000 |
| Indirect labor..... | \$38,000 |
| Direct materials..... | \$138,000 |
| Advertising..... | \$76,000 |
| Depreciation of production equipment..... | \$54,000 |
| Direct labor..... | \$89,000 |

Required:

- What is the total amount of product cost listed above? Show your work.
- What is the total amount of period cost listed above? Show your work.

a. Product costs consist of direct materials, direct labor, and manufacturing overhead:

| | | |
|--|---------|------------------|
| Direct materials..... | | \$138,000 |
| Direct labor..... | | 89,000 |
| Manufacturing overhead: | | |
| Property taxes, factory..... | \$7,000 | |
| Indirect labor..... | 38,000 | |
| Depreciation of production equipment.... | 54,000 | 99,000 |
| Total product cost..... | | <u>\$326,000</u> |

b. Period costs consist of all costs other than product costs:

| | |
|----------------------------|------------------|
| Marketing salaries..... | \$49,000 |
| Administrative travel..... | 104,000 |
| Sales commissions..... | 49,000 |
| Advertising..... | 76,000 |
| Total period cost..... | <u>\$278,000</u> |

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

185. Stony Electronics Corporation manufactures a portable radio designed for mounting on the wall of the bathroom. The following list represents some of the different types of costs incurred in the manufacture of these radios:

1. The plant manager's salary.
2. The cost of heating the plant.
3. The cost of heating executive offices.
4. The cost of printed circuit boards used in the radios.
5. Salaries and commissions of company salespersons.
6. Depreciation on office equipment used in the executive offices.
7. Depreciation on production equipment used in the plant.
8. Wages of janitorial personnel who clean the plant.
9. The cost of insurance on the plant building.
10. The cost of electricity to light the plant.
11. The cost of electricity to power plant equipment.
12. The cost of maintaining and repairing equipment in the plant.
13. The cost of printing promotional materials for trade shows.
14. The cost of solder used in assembling the radios.
15. The cost of telephone service for the executive offices.

Required:

Classify each of the items above as product (inventoriable) cost or period (noninventoriable) cost for the purpose of preparing external financial statements.

1. Product.
2. Product.
3. Period.
4. Product.
5. Period.
6. Period.
7. Product.

- 8. Product.
- 9. Product.
- 10. Product.
- 11. Product.
- 12. Product.
- 13. Period.
- 14. Product.
- 15. Period.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-03 Understand cost classifications used to prepare financial statements: product costs and period costs.

186. A number of costs and measures of activity are listed below.

| | Cost Description | Possible Measure of Activity |
|-----|---|-------------------------------|
| 1. | Cost of renting production equipment on a monthly basis at a surfboard manufacturer | Surfboards produced |
| 2. | Cost of shipping bags of garden mulch to a retail garden store | Bags shipped |
| 3. | Building rent at a sandwich shop | Dollar sales |
| 4. | Cost of hard disk installed in a computer | Number of computers assembled |
| 5. | Cost of fresh vegetables used at a sandwich shop | Dollar sales |
| 6. | Janitorial wages at a surfboard manufacturer | Surfboards produced |
| 7. | Cost of advertising at a surfboard company | Surfboards sold |
| 8. | Clinical supplies at a doctor's office | Number of patients |
| 9. | Cost of leasing checkout equipment on a monthly basis at an electronics store | Dollar sales |
| 10. | Cost of heating an electronics store | Dollar sales |

Required:

For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

1. Cost of renting production equipment on a monthly basis at a surfboard manufacturer; Surfboards produced; Fixed
2. Cost of shipping bags of garden mulch to a retail garden store; Bags shipped; Variable
3. Building rent at a sandwich shop; Dollar sales; Fixed
4. Cost of hard disk installed in a computer; Number of computers assembled; Variable
5. Cost of fresh vegetables used at a sandwich shop; Dollar sales; Variable
6. Janitorial wages at a surfboard manufacturer; Surfboards produced; Fixed
7. Cost of advertising at a surfboard company; Surfboards sold; Fixed
8. Clinical supplies at a doctor's office; Number of patients; Variable
9. Cost of leasing checkout equipment on a monthly basis at an electronics store; Dollar sales; Fixed
10. Cost of heating an electronics store; Dollar sales; Fixed

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

187. A number of costs and measures of activity are listed below.

| | Cost Description | Possible Measure of Activity |
|-----|---|------------------------------|
| 1. | Cost of cement used to produce cinder blocks | Cinder blocks produced |
| 2. | Cost of leasing checkout equipment on a monthly basis at a hardware store | Dollar sales |
| 3. | Cost of vaccine used at a clinic | Vaccines administered |
| 4. | Salary of the staff chaplain at a hospital | Number of patients |
| 5. | Windshield wiper blades installed on autos at an auto assembly plant | Number of autos assembled |
| 6. | Lease cost of equipment at a dentist's office | Number of patients |
| 7. | Interest expense on corporate debt | Dollar sales |
| 8. | Cost of renting production equipment on a monthly basis at a snowboard manufacturer | Snowboards produced |
| 9. | Cost of advertising at a snowboard company | Snowboards sold |
| 10. | Cook's wages at a taco shop | Dollar sales |

Required:

For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

1. Cost of cement used to produce cinder blocks; Cinder blocks produced; Variable
2. Cost of leasing checkout equipment on a monthly basis at a hardware store; Dollar sales; Fixed
3. Cost of vaccine used at a clinic; Vaccines administered; Variable
4. Salary of the staff chaplain at a hospital; Number of patients; Fixed
5. Windshield wiper blades installed on autos at an auto assembly plant; Number of autos assembled; Variable
6. Lease cost of equipment at a dentist's office; Number of patients; Fixed
7. Interest expense on corporate debt; Dollar sales; Fixed
8. Cost of renting production equipment on a monthly basis at a snowboard manufacturer; Snowboards produced; Fixed
9. Cost of advertising at a snowboard company; Snowboards sold; Fixed
10. Cook's wages at a taco shop; Dollar sales; Fixed

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

188. Younger Corporation reports that at an activity level of 8,700 units, its total variable cost is \$653,109 and its total fixed cost is \$658,416.

Required:

For the activity level of 8,800 units, compute: (a) the total variable cost; (b) the total fixed cost; (c) the total cost; (d) the average variable cost per unit; (e) the average fixed cost per unit; and (f) the average total cost per unit. Assume that this activity level is within the relevant range.

Variable cost = $\$653,109 \div 8,700 \text{ units} = \75.07 per unit

| | |
|--|--------------------|
| Activity level | 8,800 |
| Total cost: | |
| Variable cost (a) [8,800 units × \$75.07 per unit] ... | \$660,616 |
| Fixed cost (b) | 658,416 |
| Total (c) | <u>\$1,319,032</u> |
| Cost per unit: | |
| Variable cost (d) | \$75.07 |
| Fixed cost (e) [\$658,416 ÷ 8,800 units] | 74.82 |
| Total (f) | <u>\$149.89</u> |

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

189. Shaw Supply Company sells a single product and has the following average costs at a sales level of 15,000 units:

| | |
|------------------------------|---------------|
| Variable cost per unit | \$2.45 |
| Fixed cost per unit | 4.75 |
| Total cost per unit | <u>\$7.20</u> |

Required:

Determine the following amounts at a sales level of 18,000 units:

- a. Total variable cost
- b. Total fixed cost
- c. Variable cost per unit
- d. Fixed cost per unit
- e. Total cost per unit

$$\text{Total fixed cost} = \$4.75 \text{ per unit} \times 15,000 \text{ units} = \$71,250$$

$$\text{a. Total variable cost} = \$2.45 \text{ per unit} \times 18,000 \text{ units} = \$44,100$$

$$\text{b. Total fixed cost} = \$71,250$$

$$\text{c. Variable cost per unit} = \$2.45 \text{ per unit}$$

$$\text{d. Fixed cost per unit} = \$71,250 \div 18,000 \text{ units} = \$3.96 \text{ per unit}$$

$$\text{e. Total cost per unit} = (\$71,250 + \$44,100) \div 18,000 \text{ units} = \$6.41 \text{ per unit}$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

190. At an activity level of 8,800 units, Pember Corporation's total variable cost is \$146,520 and its total fixed cost is \$219,296.

Required:

For the activity level of 8,900 units, compute: (a) the total variable cost; (b) the total fixed cost; (c) the total cost; (d) the average variable cost per unit; (e) the average fixed cost per unit; and (f) the average total cost per unit. Assume that this activity level is within the relevant range.

Variable cost = $\$146,520 \div 8,800 \text{ units} = \16.65 per unit

| | |
|--|------------------|
| Activity level | 8,900 |
| Total cost: | |
| Variable cost (a) [8,900 units × \$16.65 per unit] ... | \$148,185 |
| Fixed cost (b) | 219,296 |
| Total (c) | <u>\$367,481</u> |
| Cost per unit: | |
| Variable cost (d) | \$16.65 |
| Fixed cost (e) [\$219,296 ÷ 8,900 units] | 24.64 |
| Total (f) | <u>\$41.29</u> |

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

191. Cosgrove, Inc., is a wholesaler that distributes a single product. The company's revenues and expenses for the last three months are given below:

Cosgrove Company
Traditional Format Income Statement
For the Three Months Ended June 30

| | April | May | June |
|--|--------------------|------------------|------------------|
| Sales in units..... | 3,000 | 3,750 | 4,500 |
| Sales revenue | \$420,000 | \$525,000 | \$630,000 |
| Cost of goods sold | <u>168,000</u> | <u>210,000</u> | <u>252,000</u> |
| Gross margin..... | 252,000 | 315,000 | 378,000 |
| Selling and administrative expenses: | | | |
| Shipping expense | 44,000 | 50,000 | 56,000 |
| Advertising expense..... | 70,000 | 70,000 | 70,000 |
| Salaries and commissions..... | 107,000 | 125,000 | 143,000 |
| Insurance expense | 9,000 | 9,000 | 9,000 |
| Depreciation expense | <u>42,000</u> | <u>42,000</u> | <u>42,000</u> |
| Total selling and administrative expense | <u>272,000</u> | <u>296,000</u> | <u>320,000</u> |
| Net operating income (loss)..... | <u>\$(20,000)</u> | <u>\$ 19,000</u> | <u>\$ 58,000</u> |

Required:

- a. Determine which expenses are mixed and, by use of the high-low method, separate each mixed expense into variable and fixed elements. (Use unit sales as the activity measure.) State the cost formula for each mixed expense.
- b. Compute the company's contribution margin for May.

a. The Cost of Goods Sold is always \$56 per unit and is therefore strictly variable. The total Advertising, Insurance, and Depreciation expenses are fixed. Only the Shipping and the Salaries and Commissions Expenses are mixed.

Shipping Expense:

Variable cost per unit = Change in cost ÷ Change in activity

$$= (\$56,000 - \$44,000) \div (4,500 \text{ units} - 3,000 \text{ units})$$

$$= \$12,000 \div 1,500 \text{ units}$$

$$= \$8 \text{ per unit}$$

$$\text{Fixed cost} = \text{Total cost} - \text{Total variable cost}$$

$$= \$56,000 - (4,500 \text{ units} \times \$8 \text{ per unit})$$

$$= \$20,000$$

Cost formula: $Y = \$20,000 + \$8X$.

Salaries and Commissions:

Variable cost per unit = Change in cost ÷ Change in activity

$$= (\$143,000 - \$107,000) \div (4,500 \text{ units} - 3,000 \text{ units})$$

$$= \$36,000 \div 1,500 \text{ units}$$

$$= \$24 \text{ per unit}$$

Fixed cost = Total cost - Total variable cost

$$= \$143,000 - (4,500 \text{ units} \times \$24 \text{ per unit})$$

$$= \$35,000$$

Cost formula: $Y = \$35,000 + \$24X$.

b.

| | | |
|--|-----------|------------------|
| Sales revenue | | \$525,000 |
| Variable expenses: | | |
| Cost of goods sold | \$210,000 | |
| Shipping expense (3,750 units × \$8 per unit) | 30,000 | |
| Salaries & Commissions (3,750 units × \$24 per unit) | 90,000 | 330,000 |
| Contribution margin | | <u>\$195,000</u> |

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-04 Understand cost classifications used to predict cost behavior: variable costs; fixed costs; and mixed costs.

Learning Objective: 02-05 Analyze a mixed cost using a scattergraph plot and the high-low method.

Learning Objective: 02-06 Prepare income statements for a merchandising company using the traditional and contribution formats.