

Chapter 2 Review Questions

3, 4, 9 to 12. Consider the following data of the Ridgeport Company for the year 19x1:

Sandpaper	\$10,000	Leasing costs - plant	\$120,000
Materials handling	100,000	Depreciation - equip.	70,000
Coolants & lubricants	7,000	Property taxes - equip.	10,000
Indirect mfg. labor	86,000	Fire insurance - equip.	5,000
Direct mfg. labor	680,000	Direct mat. pur.	980,000
Direct mat., 1/1/x1	120,000	Direct mat. 12/31/x1	86,000
Finished goods, 1/1/x1	210,000	Sales	4,000,000
Finished goods, 12/31/x1	400,000	Sales commissions	200,000
WIP, 1/1/x1	30,000	Sales salaries	180,000
WIP, 12/31/x1	20,000	Advertising costs	150,000
		Administration costs	250,000

3. What is the unit cost for the direct materials for 19x1, assuming direct materials cost is for the production of 1,014,000 units?

- a. \$0.80 b. \$0.95 c. \$1.00 d. \$1.08

4. What is the unit cost for the direct materials for 19x1, assuming 2,000,000 units are produced (direct materials costs are \$1.00 per unit when 1,014,000 units are produced)?

- a. \$0.80 b. \$0.95 c. \$1.00 d. \$1.08

5. What is the unit cost for the plant leasing cost for 19x1, assuming 2,000,000 units are produced (plant leasing costs are \$0.118 per unit when 1,014,000 units are produced)?

- a. 0.35 b. 0.18 c. 0.12 d. 0.06

9. What is the amount of direct materials used for the year 19x1?

- a. \$860,000 b. \$894,000 c. \$946,000 d. \$1,014,000

10. What is the manufacturing cost incurred in 19x1?

- a. \$1,088,000 b. \$2,097,000 c. \$2,102,000 d. \$2,352,000

11. What is the cost of goods manufactured in 19x1?

- a. \$2,132,000 b. \$2,112,000 c. \$2,102,000 d. \$2,082,000

12. What is the cost of goods sold for Ridgeport Company for 19x1?

- a. \$2,322,000 b. \$1,922,000 c. \$1,712,000 d. \$1,502,000

6. The following information pertains to Tom's Country Wood Shop:

Beginning finished goods, 1/1/19x1	\$15,000
Ending finished goods, 12/31/19x1	9,500
Cost of goods sold	56,000
Sales	112,500
Operating expenses	25,000

What is the cost of goods manufactured for 19x1?

- a. \$56,500 b. \$31,500 c. \$50,500 d. \$61,500

7, 8. Valmont Industries, Inc. had the following activities during 19x1:

Direct materials:

Beginning inventory	\$50,000
Purchases	154,000
Ending inventory	26,000

Direct manufacturing labor	40,000
Manufacturing overhead	30,000
Ending work-in-process inventory	10,000
Beginning work-in-process inventory	2,000
Ending finished goods inventory	40,000
Beginning finished goods inventory	60,000

7. What is Valmont's cost of goods manufactured during 19x1?

- a. \$268,000 b. \$248,000 c. \$240,000 d. \$238,000

8. What is Valmont's cost of goods sold during 19x1?

- a. \$260,000 b. \$232,000 c. \$220,000 d. \$200,000

13. Frazer, Inc. had the following activities during 19x1:

Direct materials:

Beginning inventory	\$100,000
Purchases	308,000
Ending inventory	52,000
Direct manufacturing labor	80,000
Manufacturing overhead	60,000
Ending work-in-process inventory	20,000
Beginning work-in-process inventory	4,000
Ending finished goods inventory	80,000
Beginning finished goods inventory	120,000

What is Frazer's cost of goods manufactured during 19x1?

- a. \$536,000 b. \$496,000 c. \$480,000 d. \$476,000

What is Frazer's cost of goods sold during 19x1?

- a. \$520,000 b. \$464,000 c. \$440,000 d. \$400,000

15. Ames Power Point had sales in October of \$28,000,000 for its three stores in Kansas City. The beginning merchandise inventory for October was \$5,000,000 and for November it was \$4,000,000. Purchases totaled \$19,000,000 during October. All sales are on account (terms 2/15, net 30 days) and are collected 50 percent in the month of the sale and 50 percent in the following month. One-half of all sales discounts are taken, for a total of \$265,000. September sales totaled \$25,000,000 while November sales were \$30,000,000.

October

Supplies used	\$1,000,000
Salaries and benefits	1,500,000
Maintenance	45,000
Depreciation	9,000
Utilities	35,000
Principal payment on maturing bonds	2,000,000

Required: Prepare an income statement for October.

16. Eschliman Manufacturing Company had the following account balances for the quarter ending September 30, unless otherwise noted:

Depreciation of manufacturing equipment	\$88,000
Depreciation of office equipment	41,200
Direct manufacturing labor	160,000
Direct materials used	126,000

Finished goods inventory (July 1)	180,000
Finished goods inventory (September 30)	170,000
General office expenses	101,800
Indirect manufacturing labor	62,000
Indirect materials used	28,000
Marketing distribution costs	10,000
Miscellaneous plant overhead	45,000
Plant utilities	30,800
Property taxes on building	9,600
Property taxes on salespersons' company vehicles	4,000
Work-in-process inventory (July 1)	46,800
Work-in-process inventory (September 30)	57,000

Required: a. Prepare a cost of goods manufactured schedule for the quarter.
b. Prepare a cost of goods sold schedule for the quarter.

17. Presented below is information from the records of Britton Company for March:

Purchases:	
Direct materials	\$9,000,000
Indirect materials	200,000
Office supplies	420,000
Sales	36,000,000
Salaries and Benefits:	
Selling and administrative	4,000,000
Direct manufacturing labor	6,000,000
Rent*	4,000,000
Utilities*	1,200,000
Advertising	700,000

Inventories:		March 1	March 31
Direct materials	\$4,400,000		\$1,600,000
Indirect materials	500,000		600,000
Office supplies	150,000		180,000
Finished goods	24,000,000		16,000,000

* Of these costs, 60 percent are assigned to manufacturing and 40 percent to selling and administration.

- Required:
- Prepare a schedule of cost of goods manufactured.
 - Prepare an income statement for the month.
 - Compute the prime costs, conversion costs, and indirect manufacturing costs.

18. Farley Muffler, Inc. received the following monthly reports from its newly hired accountant, who quit after only a week on the job.

Farley Muffler, Inc.
Cost of Goods Sold Schedule

Finished Goods Inventory (beginning)	\$15,000
Work-in-process Inventory (beginning)	<u>3,000</u>

Total		\$18,000
Current Manufacturing Costs:		
Salaries and wages:		
Direct manufacturing labor	\$5,000	
Indirect manufacturing labor	2,000	
Sales salaries	4,000	
Administrative	3,000	\$14,000
Other:		
Manufacturing supplies	\$1,500	
Manufacturing depreciation	3,500	
Insurance on showroom	1,000	
Miscellaneous factory overhead	6,500	12,500
		<u>26,500</u>
Total Work-in-process		\$44,500
Ending Work-in-process and Finished Goods Inventory		<u>0</u>
Cost of Goods Sold		<u>\$44,500</u>

Farley Muffler, Inc.
Income Statement

Sales	\$100,000
Less direct materials	20,000
Gross profit	<u>\$80,000</u>
Less other expenses:	
Cost of goods sold	\$44,500
Office supplies	250
Manufacturing utilities	1,000
Office utilities	250
	<u>46,000</u>
Net Income	<u>\$34,000</u>

- Required:
- Prepare a cost of goods manufactured statement in good form.
 - Prepare an income statement in good form.

19. Find the required amounts using the following information pertaining to each account given. Assume each is an independent case.

a. Direct Materials	Beginning balance	\$14,000
	Ending balance	28,000
	Purchases	96,000
	Direct materials used	?
b. Finished Goods Inventory	Cost of goods manufactured	\$124,000
	Ending balance	40,000
	Cost of goods sold	122,000
	Beginning balance?	
c. Work-in-process Inventory	Ending Balance	\$44,000
	Cost of goods manufactured	42,000
	Beginning balance	16,000

Current manufacturing costs?

d. Merchandise Inventory	Purchases	\$420,000
	Cost of goods sold	446,000
	Beginning balance	82,000
	Ending balance	?

CHAPTER 2 ANSWERS

3. c $(\$120,000 + \$980,000 - \$86,000) / 1,014,000 \text{ units} = \1.00
 4. c direct materials are variable; therefore, per unit costs remains the same at \$1.00
 9. d $\$120,000 + \$980,000 - \$86,000 = \$1,014,000$
 10. c $\$10,000 + \$100,000 + \$7,000 + \$86,000 + \$120,000 + \$70,000 + \$10,000 + \$5,000 + \$1,014,000 + \$680,000 = \$2,102,000$
 11. b $\$2,102,000 + \$30,000 - \$20,000 = \$2,112,000$
 12. b $\$210,000 + \$2,112,000 - \$400,000 = \$1,922,000$
 6. c $\$56,000 + \$9,500 - \$15,000 = \$50,500$
 7. c $\$178,000 + \$40,000 + \$30,000 + \$2,000 - \$10,000 = \$240,000$
 8. a $\$60,000 + \$240,000 - \$40,000 = \$260,000$
 13. c $(\$100,000 + \$308,000 - \$52,000) + \$80,000 + \$60,000 + \$4,000 - \$20,000 = \$480,000$
 15.

Ames Power Point

Income Statement for the month of October

Sales		\$28,000,000
Less sales discounts		265,000
Net sales		\$27,735,000
Cost of goods sold:		
Beginning inventory	\$ 5,000,000	
Purchases	<u>19,000,000</u>	
Cost of goods available for sale	\$24,000,000	
Ending inventory	4,000,000	20,000,000
Gross margin	\$ 7,735,000	
Other costs:		
Supplies	\$ 1,000,000	
Salaries and benefits	1,500,000	
Maintenance	45,000	
Depreciation	9,000	
Utilities	35,000	
Total other costs		2,589,000
Operating Income		\$ 5,146,000

16. a.

Eschliman Manufacturing Company
 Cost of Goods Manufactured Schedule for quarter ending September 30

Direct materials used		\$126,000
Direct manufacturing labor		160,000
Manufacturing overhead		
Depreciation of mfg. equip.	\$ 88,000	
Indirect mfg. labor	62,000	
Indirect materials	28,000	
Miscellaneous plant overhead	45,000	
Plant utilities	30,800	
Property taxes on building	9,600	<u>263,400</u>
Manufacturing costs incurred		\$549,400
Add beginning work-in-process inventory		46,800
Total manufacturing costs		\$596,200
Less ending work-in-process inventory		<u>57,000</u>
Cost of goods manufactured		\$539,200

b.

Eschliman Manufacturing Company
 Cost of Goods Sold Schedule for quarter ending September 30

Beginning finished goods inventory	\$180,000
Cost of goods manufactured	539,200
Cost of goods available for sale	\$719,200
Ending finished goods inventory	<u>170,000</u>
Cost of goods sold	\$549,200

17. a.

Britton Company
 Cost of Goods Manufactured Schedule for the month of March

Direct materials:		
Beginning inventory	\$ 4,400,000	
Purchases of direct materials	<u>9,000,000</u>	
Cost of direct materials available	\$13,400,000	
Ending inventory	1,600,000	
Direct materials used		\$11,800,000
Direct manufacturing labor		6,000,000
Manufacturing overhead:		
Rent (60%)	\$ 2,400,000	
Utilities (60%)	720,000	
Indirect materials		
(\$200,000 + \$500,000 - \$600,000)	100,000	<u>3,220,000</u>
Cost of goods manufactured		\$21,020,000

b.

Britton Company
 Income Statement for the month of March

Sales		\$36,000,000
Cost of goods sold:		
Beginning inventory	\$24,000,000	
Cost of goods manufactured	21,020,000	
Cost of goods available for sale	\$45,020,000	

Ending inventory	16,000,000	<u>29,020,000</u>
Gross margin	\$ 6,980,000	
Other costs:		
Supplies (\$420,000 + \$150,000-\$180,000)	\$390,000	
Selling and administrative salaries	4,000,000	
Rent (40%)	1,600,000	
Utilities (40%)	480,000	
Advertising	700,000	<u>7,170,000</u>
Operating Income	\$	<u>(190,000)</u>

Operating income \$ 34,000

- c. Prime costs = \$11,800,000 + \$6,000,000 = \$17,800,000
 Conversion costs = \$6,000,000 + \$3,220,000 = \$9,220,000
 Indirect manufacturing costs = \$3,220,000

19.
 a. Direct materials used \$14,000 + \$96,000 - \$28,000 = \$82,000
 b. Beginning balance of finished goods inventory \$40,000 + \$122,000 - \$124,000 = \$38,000
 c. Current manufacturing costs \$42,000 + \$44,000 - \$16,000 = \$70,000
 d. Ending balance of merchandise inventory \$82,000 + \$420,000 - \$446,000 = \$56,000

18. a.

Farley Muffler, Inc.
 Cost of Goods Manufactured Schedule

Direct materials		\$20,000
Direct Manufacturing labor		5,000
Indirect manufacturing cost:		
Utilities	\$1,000	
Supplies	1,500	
Depreciation	3,500	
Indirect manufacturing labor	2,000	
Miscellaneous factory overhead	6,500	14,500
Manufacturing cost incurred		\$39,500
Add beginning work-in-process inventory		3,000
Total manufacturing costs		\$42,500
Less ending work-in-process inventory		<u>0</u>
Cost of goods manufactured		\$42,500

b.

Farley Muffler, Inc.
 Income Statement

Sales		\$100,000
Cost of goods sold:		
Beginning finished goods inventory	\$15,000	
Cost of goods manufactured	<u>42,500</u>	
Cost of goods available for sale	\$57,500	
Ending finished goods inventory	<u>0</u>	
Cost of goods sold		<u>57,500</u>
Gross margin		\$ 42,500
Other costs:		
Office supplies	\$250	
Office utilities	250	
Sales salaries and wages	4,000	
Administrative salaries and wages	3,000	
Insurance on showroom	1,000	8,500