Mid term Acc 270

Multiple Choice

Identify the choice that best completes the statement or answers the question.

___ 1. In comparing financial and management accounting, which of the following more accurately describes management accounting information?
    a. historical, precise, useful
    b. required, estimated, internal
    c. budgeted, informative, adaptable
    d. comparable, verifiable, monetary

___ 2. Management and financial accounting are used for which of the following purposes?

<table>
<thead>
<tr>
<th>Management accounting</th>
<th>Financial accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. internal</td>
<td>external</td>
</tr>
<tr>
<td>b. external</td>
<td>internal</td>
</tr>
<tr>
<td>c. internal</td>
<td>internal</td>
</tr>
<tr>
<td>d. external</td>
<td>external</td>
</tr>
</tbody>
</table>

___ 3. A managerial accountant who communicates information objectively is exercising which of the following standards?
    a. objectivity
    b. integrity
    c. competence
    d. confidentiality

___ 4. The Institute of Management Accountants' Code of Ethics
    a. is a legally enforceable contract with all management accountants.
    b. should be viewed as a goal for professional behavior.
    c. is a legally enforceable contract with all CPAs.
    d. provides ways to measure departures from ethical behavior.

___ 5. The term "relevant range" as used in cost accounting means the range over which
    a. costs may fluctuate.
    b. cost relationships are valid.
    c. production may vary.
    d. relevant costs are incurred.
6. Which of the following defines variable cost behavior?

<table>
<thead>
<tr>
<th>Total cost reaction to increase in activity</th>
<th>Cost per unit reaction to increase in activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. remains constant</td>
<td>remains constant</td>
</tr>
<tr>
<td>b. remains constant</td>
<td>increases</td>
</tr>
<tr>
<td>c. increases</td>
<td>increases</td>
</tr>
<tr>
<td>d. increases</td>
<td>remains constant</td>
</tr>
</tbody>
</table>

7. Product costs are deducted from revenue
   a. as expenditures are made.
   b. when production is completed.
   c. as goods are sold.
   d. to minimize taxable income.

8. Which of the following is not a product cost component?
   a. rent on a factory building
   b. indirect production labor wages
   c. janitorial supplies used in a factory
   d. commission on the sale of a product

9. Since overhead costs are indirect costs,
   a. they require some process of allocation.
   b. they can be easily traced to production.
   c. a predetermined overhead rate is not advantageous.
   d. they cannot be allocated.

10. Cost allocation is the assignment of ___ costs to one or more products using a reasonable basis.

<table>
<thead>
<tr>
<th>direct</th>
<th>indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. yes</td>
<td>yes</td>
</tr>
<tr>
<td>b. yes</td>
<td>no</td>
</tr>
<tr>
<td>c. no</td>
<td>no</td>
</tr>
<tr>
<td>d. no</td>
<td>yes</td>
</tr>
</tbody>
</table>

11. Predetermined overhead rates are computed based on

<table>
<thead>
<tr>
<th>estimated overhead costs</th>
<th>estimated level of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. yes</td>
<td>yes</td>
</tr>
<tr>
<td>b. yes</td>
<td>no</td>
</tr>
<tr>
<td>c. no</td>
<td>yes</td>
</tr>
<tr>
<td>d. no</td>
<td>no</td>
</tr>
</tbody>
</table>
12. When a manufacturing company has a highly automated manufacturing plant producing many different products, which of the following is the more appropriate basis of applying manufacturing overhead costs to work in process?
   a. direct labor hours
   b. direct labor dollars
   c. machine hours
   d. cost of materials used

13. In the formula \( y = a + bX \), \( a \) represents
   a. mixed cost.
   b. variable cost.
   c. total cost.
   d. fixed cost.

14. If actual overhead is less than applied overhead, which of the following will be true? Upon closing,

<table>
<thead>
<tr>
<th>Overhead is</th>
<th>Cost of Goods Sold is</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. underapplied</td>
<td>credited</td>
</tr>
<tr>
<td>b. underapplied</td>
<td>debited</td>
</tr>
<tr>
<td>c. overapplied</td>
<td>debited</td>
</tr>
<tr>
<td>d. overapplied</td>
<td>credited</td>
</tr>
</tbody>
</table>

15. An objective of activity-based management is to
   a. eliminate the majority of centralized activities in an organization.
   b. reduce or eliminate non-value-added activities incurred to make a product or provide a service.
   c. institute responsibility accounting systems in decentralized organizations.
   d. all of the above

16. The sum of the non-value-added time and the value-added time equals
   a. inspection time.
   b. production time.
   c. the product life cycle.
   d. cycle time.

17. For one product that a firm produces, the manufacturing cycle efficiency is 20 percent. If the total production time is 12 hours, what is the total manufacturing time?
   a. 15.0 hours
   b. 60.0 hours
   c. 12.0 hours
   d. 2.4 hours
18. An activity driver is used for which of the following reasons?

<table>
<thead>
<tr>
<th>To measure demands</th>
<th>To measure resources consumed</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. yes</td>
<td>yes</td>
</tr>
<tr>
<td>b. yes</td>
<td>no</td>
</tr>
<tr>
<td>c. no</td>
<td>yes</td>
</tr>
<tr>
<td>d. no</td>
<td>no</td>
</tr>
</tbody>
</table>

19. In activity-based costing, final cost allocations assign costs to
   a. departments.
   b. processes.
   c. products.
   d. activities.

20. In allocating fixed costs to products in activity-based costing,
   a. direct labor hours should always be used as the allocation base.
   b. a company should use the same allocation base that it uses for variable costs.
   c. a cost driver that is not volume-related should be used.
   d. machine hours should always be used.

21. Which of the following costing methods of valuation are acceptable in a job-order costing system?

<table>
<thead>
<tr>
<th>Actual Material Cost</th>
<th>Standard Material Cost</th>
<th>Actual Labor Cost</th>
<th>Predetermined Overhead Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>b. yes</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>c. no</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>d. yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

22. A credit to Work in Process Inventory represents
   a. work still in process.
   b. raw material put into production.
   c. the application of overhead to production.
   d. the transfer of completed items to Finished Goods Inventory.
23. West Company is a print shop that produces jobs to customer specifications. During January, Job #3051 was worked on and the following information is available:

Direct material used $2,500
Direct labor hours worked 15
Machine time used 6
Direct labor rate per hour $7
Overhead application rate per hour of machine time $18

What was the total cost of Job #3051 for January?
- a. $2,713
- b. $2,770
- c. $2,812
- d. $3,052

Williams Company.

Williams Company uses a job-order costing system and the following information is available from its records. The company has three jobs in process: #6, #9, and #13.

Raw material used $120,000
Direct labor per hour $8.50
Overhead applied based on direct labor cost 120%

Direct material was requisitioned as follows for each job respectively: 30 percent, 25 percent, and 25 percent; the balance of the requisitions was considered indirect. Direct labor hours per job are 2,500; 3,100; and 4,200; respectively. Indirect labor is $33,000. Other actual overhead costs totaled $36,000.

24. Refer to Williams Company. What is the total amount of overhead applied to Job #9?
- a. $18,250
- b. $26,350
- c. $30,000
- d. $31,620
Trenton Company

Trenton Company has two departments (Processing and Packaging) and uses a job-order costing system. Baker applies overhead in Processing based on machine hours and on direct labor cost in Packaging. The following information is available for July:

<table>
<thead>
<tr>
<th></th>
<th>Processing</th>
<th>Packaging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine hours</td>
<td>2,500</td>
<td>1,000</td>
</tr>
<tr>
<td>Direct labor cost</td>
<td>$44,500</td>
<td>$23,000</td>
</tr>
<tr>
<td>Applied overhead</td>
<td>$55,000</td>
<td>$51,750</td>
</tr>
</tbody>
</table>

25. Refer to Trenton Co. What is the overhead application rate for Packaging?
   a. $0.44
   b. $2.25
   c. $23.00
   d. $51.75

26. Process costing techniques should be used in assigning costs to products
   a. if a product is manufactured on the basis of each order received.
   b. when production is only partially completed during the accounting period.
   c. if a product is composed of mass-produced homogeneous units.
   d. whenever standard-costing techniques should not be used.

27. A process costing system does which of the following?

   Calculates EUPs    Assigns costs to inventories
   a. no               no
   b. no               yes
   c. yes              yes
   d. yes              no

28. A process costing system

   Calculates average cost per whole unit    Determines total units to account for
   a. yes               yes
   b. no                no
   c. yes               no
   d. no                yes
Christmas Company

The Christmas Company makes wreaths in two departments: Forming and Decorating. Forming began the month with 500 wreaths in process that were 100 percent complete as to material and 40 percent complete as to conversion. During the month, 6,500 wreaths were started. At month end, Forming had 2,100 wreaths that were still in process that were 100 percent complete as to material and 50 percent complete as to conversion. Assume Forming uses the weighted average method of process costing. Costs in the Forming Department are as follows:

**Beginning Work in Process Costs:**
- Material: $1,000
- Conversion: $1,500

**Current Costs:**
- Material: $3,200
- Conversion: $5,045

The Decorating Department had 600 wreaths in process at the beginning of the month that were 80 percent complete as to material and 90 percent complete as to conversion. The department had 300 units in ending Work in Process that were 50 percent complete as to material and 75 percent complete as to conversion. Decorating uses the FIFO method of process costing, and costs associated with Decorating are:

**Beginning WIP Inventory:**
- Transferred In: $1,170
- Material: $4,320
- Conversion: $6,210

**Current Period:**
- Transferred In: $67,745
- Material: $95,820

29. Refer to Christmas Company. How many units were transferred to Decorating during the month?
   a. 600
   b. 4,900
   c. 5,950
   d. 7,000

30. Refer to Christmas Company. What was the cost transferred out of Forming during the month?
   a. $5,341
   b. $6,419
   c. $8,245
   d. $8,330

31. Which of the following statements regarding standard cost systems is true?
   a. Favorable variances are not necessarily good variances.
   b. Managers will investigate all variances from standard.
   c. The production supervisor is generally responsible for material price variances.
   d. Standard costs cannot be used for planning purposes since costs normally change in the future.
32. A purpose of standard costing is to
   a. replace budgets and budgeting.
   b. simplify costing procedures.
   c. eliminate the need for actual costing for external reporting purposes.
   d. eliminate the need to account for year-end underapplied or overapplied manufacturing overhead.
33. The term “standard hours allowed” measures
   a. budgeted output at actual hours.
   b. budgeted output at standard hours.
   c. actual output at standard hours.
   d. actual output at actual hours.

**Occidental Company**

Occidental Company has developed standard overhead costs based on a capacity of 180,000 machine hours as follows:

<table>
<thead>
<tr>
<th>Standard costs per unit:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable portion 2 hours @ $3 =</td>
<td>$6</td>
</tr>
<tr>
<td>Fixed portion 2 hours @ $5 =</td>
<td>$16</td>
</tr>
</tbody>
</table>

During June, 85,000 units were scheduled for production, but only 80,000 units were actually produced. The following data relate to June:

Actual machine hours used were 165,000.
Actual overhead incurred totaled $1,378,000 ($518,000 variable plus $860,000 fixed).
All inventories are carried at standard cost.

34. Refer to Occidental Company. The variable overhead spending variance for June was
   a. $15,000 U.
   b. $23,000 U.
   c. $38,000 F.
   d. $38,000 U.

35. Refer to Occidental Company. The variable overhead efficiency variance for June was
   a. $15,000 U.
   b. $23,000 U.
   c. $38,000 F.
   d. $38,000 U.

36. Refer to Occidental Company. The fixed overhead spending variance for June was
   a. $40,000 U.
   b. $40,000 F.
   c. $60,000 F.
   d. $60,000 U.
37. Strategic planning is
   a. planning activities for promoting products for the future.
   b. planning for appropriate assignments of resources.
   c. setting standards for the use of important but hard-to-find materials.
   d. stating and establishing long-term plans.

38. Which of the following is not an "operating" budget?
   a. sales budget
   b. production budget
   c. purchases budget
   d. capital budget

39. Budgeted sales for the first six months for Meixner Corp. are listed below:

<table>
<thead>
<tr>
<th></th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
<th>APRIL</th>
<th>MAY</th>
<th>JUNE</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITS</td>
<td>6,000</td>
<td>7,000</td>
<td>8,000</td>
<td>7,000</td>
<td>5,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Meixner Corp. has a policy of maintaining an inventory of finished goods equal to 40 percent of the next month's budgeted sales. If Meixner Corp. plans to produce 6,000 units in June, what are budgeted sales for July?
   a. 3,600 units
   b. 1,000 units
   c. 9,000 units
   d. 8,000 units

40. Production of Product X has been budgeted at 200,000 units for July. One unit of X requires 2 lbs. of raw material. The projected beginning and ending materials inventory for July are:

   Beginning inventory: 2,000 lbs.
   Ending inventory: 10,000 lbs.

   How many lbs. of material should be purchased during July?
   a. 192,000
   b. 208,000
   c. 408,000
   d. 416,000
41. Greene Company has the following expected pattern of collections on credit sales: 70 percent collected in the month of sale, 15 percent in the month after the month of sale, and 14 percent in the second month after the month of sale. The remaining 1 percent is never collected.

At the end of May, Greene Company has the following accounts receivable balances:

<table>
<thead>
<tr>
<th>From April sales</th>
<th>$21,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>From May sales</td>
<td>48,000</td>
</tr>
</tbody>
</table>

Greene expected sales for June are $150,000. How much cash will Greene Company expect to collect in June?

a. $127,400
b. $129,000
c. $148,600
42. Given the following notation, what is the break-even sales level in units?

SP = selling price per unit, FC = total fixed cost, VC = variable cost per unit
a. \( \frac{SP}{FC/VC} \)
b. \( \frac{FC}{VC/SP} \)
c. \( \frac{VC}{SP - FC} \)
d. \( \frac{FC}{SP - VC} \)

43. Consider the equation \( X = Sales - ([CM/Sales] \times Sales) \). What is \( X \)?

a. net income
b. fixed costs
c. contribution margin
d. variable costs

44. The contribution margin ratio always increases when the
a. variable costs as a percentage of net sales increase.
b. variable costs as a percentage of net sales decrease.
c. break-even point increases.
d. break-even point decreases.

45. The margin of safety is a key concept of CVP analysis. The margin of safety is the
a. contribution margin rate.
b. difference between budgeted contribution margin and actual contribution margin.
c. difference between budgeted contribution margin and break-even contribution margin.
d. difference between budgeted sales and break-even sales.
Bolton Company

Below is an income statement for Bolton Company:

Sales $400,000
Variable costs (125,000)
Contribution margin $275,000
Fixed costs (200,000)
Profit before taxes $75,000

46. Refer to Bolton Company. What is Bolton’s degree of operating leverage?
   a. 3.67
   b. 5.33
   c. 1.45
   d. 2.67

47. Refer to Bolton Company. Based on the cost and revenue structure on the income statement, what was Bolton’s break-even point in dollars?
   a. $200,000
   b. $325,000
   c. $300,000
   d. $290,909

48. A fixed cost is relevant if it is
   a. a future cost.
   b. avoidable.
   c. sunk.
   d. a product cost.

49. An outside firm selected to provide services to an organization is called a
   a. contract vendor.
   b. lessee.
   c. network organization.
   d. centralized insourcer.

50. Adams Company uses 10,000 units of a part in its production process. The costs to make a part are: direct material, $12; direct labor, $25; variable overhead, $13; and applied fixed overhead, $30. Adams has received a quote of $55 from a potential supplier for this part. If Adams buys the part, 70 percent of the applied fixed overhead would continue. Adams Company would be better off by
   a. $50,000 to manufacture the part.
   b. $150,000 to buy the part.
   c. $40,000 to buy the part.
   d. $160,000 to manufacture the part.