

Acct1B - Final Exam - Practice Test

1. Which of the following are period costs?
 - A) Raw materials
 - B) Direct materials and direct labor
 - C) Direct labor and manufacturing overhead
 - D) Selling expenses

2. The entry to record the acquisition of raw materials on account is
 - A) Work in Process Inventory
 Accounts Payable
 - B) Manufacturing Overhead
 Raw Materials Inventory
 Accounts Payable
 - C) Accounts Payable
 Raw Materials Inventory
 - D) Raw Materials Inventory
 Accounts Payable

3. A materials requisition slip showed that direct materials requested were \$58,000 and indirect materials requested were \$9,000. The entry to record the transfer of materials from the storeroom is

A)	Work In Process Inventory	58,000	
	Raw Materials Inventory		58,000
B)	Direct Materials	58,000	
	Indirect Materials	9,000	
	Work in Process Inventory		67,000
C)	Manufacturing Overhead	67,000	
	Raw Materials Inventory		67,000
D)	Work In Process Inventory	58,000	
	Manufacturing Overhead	9,000	
	Raw Materials Inventory		67,000

4. A company expected its annual overhead costs to be \$900,000 and direct labor costs to be \$1,000,000. Actual overhead was \$870,000, and actual labor costs totaled \$1,100,000. How much is the company's predetermined overhead rate to the nearest cent?
- A) \$0.87
 - B) \$0.79
 - C) \$0.90
 - D) \$0.82
5. Percy, Inc. thinks machine hours is the best activity base for its manufacturing overhead. The estimate of annual overhead costs for its jobs was \$820,000. The company used 1,000 hours of processing on Job No. B12 during the period and incurred overhead costs totaling \$840,000. The budgeted machine hours for the year totaled 20,000. How much overhead should be applied to Job No. B12?
- A) \$840
 - B) \$41,000
 - C) \$42,000
 - D) \$820
6. Cotton Mfg. provided the following information from its accounting records for 2012:
- | | |
|---------------------|--------------------|
| Expected production | 30,000 labor hours |
| Actual production | 28,000 labor hours |
| Budgeted overhead | \$600,000 |
| Actual overhead | \$580,000 |
- How much is the overhead application rate if Cotton bases the rate on direct labor hours?
- A) \$20.71 per hour
 - B) \$20.00 per hour
 - C) \$19.33 per hour
 - D) \$18.67 per hour
7. Process costing **is not used** when
- A) similar goods are being produced.
 - B) large volumes are produced.
 - C) jobs have distinguishing characteristics.
 - D) a series of connected manufacturing processes is necessary.

8. Pebble Beach Manufacturing has equivalent units of 2,000 for materials and for conversion costs. Total manufacturing costs are \$160,000. Total materials costs are \$120,000. How much is the conversion cost per unit?
- A) \$8.00.
 - B) \$20.00.
 - C) \$80.00.
 - D) \$16.00.
9. The following department data are available:
- | | |
|--------------------------------------|-----------|
| Total materials costs | \$180,000 |
| Equivalent units of materials | 60,000 |
| Total conversion costs | \$105,000 |
| Equivalent units of conversion costs | 30,000 |
- What is the total manufacturing cost per unit?
- A) \$3.00.
 - B) \$3.50.
 - C) \$6.50.
 - D) \$3.17.
10. Physical units are 40,000. Total conversion costs are \$316,000. There are 1,000 units in ending inventory which are 50% complete as to conversion costs. How much are conversion costs per unit?
- A) \$8.00.
 - B) \$7.89.
 - C) \$15.81.
 - D) \$7.71.
11. Activity-based costing
- A) allocates overhead to multiple activity cost pools, and it then assigns the activity cost pools to products and services by means of cost drivers.
 - B) accumulates overhead in one cost pool, then assigns the overhead to products and services by means of a cost driver.
 - C) assigns activity cost pools to products and services, then allocates overhead back to the activity cost pools.
 - D) allocates overhead directly to products and services based on activity levels.

12. The Molding Department of Halo Industries has the following production data: beginning work process 30,000 units (60% complete), started into production 510,000 units, completed and transferred out 480,000 units, and ending work in process 60,000 units (40% complete). Assuming materials are entered at the beginning of the process, equivalent units for materials are:
- A) 540,000.
 - B) 450,000.
 - C) 480,000.
 - D) 570,000.
13. The Molding Department of Bonanza Industries has the following production data: beginning work process 30,000 units (60% complete), started into production 510,000 units, completed and transferred out 480,000 units, and ending work in process 60,000 units (40% complete). Assuming conversion costs are incurred uniformly during the process, the equivalent units for conversion costs are:
- A) 540,000.
 - B) 570,000.
 - C) 504,000.
 - D) 450,000.
14. A department adds raw materials to a process at the beginning of the process and incurs conversion costs uniformly throughout the process. For the month of January, there were no units in the beginning work in process inventory; 60,000 units were started into production in January; and there were 15,000 units that were 40% complete in the ending work in process inventory at the end of January. What were the equivalent units of production for conversion costs for the month of January?
- A) 45,000 equivalent units.
 - B) 54,000 equivalent units.
 - C) 51,000 equivalent units.
 - D) 60,000 equivalent units.

15. Clemson Co. incurs \$350,000 of overhead costs each year in its three main departments, machining (\$200,000), inspections (\$100,000) and packing (\$50,000). The machining department works 4,000 hours per year, there are 500 inspections per year, and the packing department packs 500 orders per year. Information about Clemson's two products is as follows:

	<u>Product X</u>	<u>Product Y</u>
Machining hours	1,000	3,000
Inspections	100	500
Orders packed	350	650
Direct labor hours	1,700	1,800

If traditional costing based on direct labor hours is used, how much overhead is assigned to Product X this year?

- A) \$84,167
 - B) \$121,154
 - C) \$170,000
 - D) \$175,000
16. Which of the following is a non-value-added activity?
- A) Inventory control
 - B) Machining
 - C) Assembly
 - D) Painting
17. Which of the following is a facility-level activity?
- A) Plant management
 - B) Product design
 - C) Equipment setups
 - D) Assembling
18. Which of the following is *not* a fixed cost?
- A) Direct materials
 - B) Depreciation
 - C) Lease charge
 - D) Property taxes
19. The relevant range of activity refers to the
- A) geographical areas where the company plans to operate.
 - B) activity level where all costs are curvilinear.
 - C) levels of activity over which the company expects to operate.
 - D) level of activity where all costs are constant.

20. Clemson Co. incurs \$350,000 of overhead costs each year in its three main departments, machining (\$200,000), inspections (\$100,000) and packing (\$50,000). The machining department works 4,000 hours per year, there are 600 inspections per year, and the packing department packs 1,000 orders per year. Information about Clemson's two products is as follows:

	<u>Product X</u>	<u>Product Y</u>
Machining hours	1,000	3,000
Inspections	100	500
Orders packed	350	650
Direct labor hours	1,700	1,800

Using ABC, how much overhead is assigned to Product X this year?

- A) \$84,167
 B) \$121,154
 C) \$170,000
 D) \$175,000
21. A company sells a product which has a unit sales price of \$5, unit variable cost of \$3 and total fixed costs of \$150,000. The number of units the company must sell to break even is
- A) 75,000 units.
 B) 30,000 units.
 C) 300,000 units.
 D) 50,000 units.
22. Portman Company's activity for the first three months of 2012 are as follows:

	<u>Machine Hours</u>	<u>Electrical Cost</u>
January	2,100	\$4,800
February	2,600	\$5,800
March	2,900	\$6,400

Using the high-low method, how much is the cost per machine hour (variable cost)?

- A) \$2.00
 B) \$3.00
 C) \$2.26
 D) \$1.78

23. An opportunity cost
- A) should be initially recorded as an asset.
 - B) is the cost of a new product proposal.
 - C) is the potential benefit that may be obtained by following an alternative course of action.
 - D) is classified as manufacturing overhead.
24. A company desires to sell a sufficient quantity of products to earn a profit of \$120,000. If the unit sales price is \$20, unit variable cost is \$12, and total fixed costs are \$240,000, how many units must be sold to earn net income of \$120,000?
- A) 67,500 units
 - B) 45,000 units
 - C) 36,000 units
 - D) 27,000 units
25. Moonwalker's CVP income statement included sales of 3,000 units, a selling price of \$100, variable expenses of \$60 per unit, and fixed expenses of \$66,000. Contribution margin is
- A) \$300,000.
 - B) \$180,000.
 - C) \$120,000.
 - D) \$54,000.
26. Moonwalker's CVP income statement included sales of 3,000 units, a selling price of \$100, variable expenses of \$60 per unit, and fixed expenses of \$66,000. Net income is
- A) \$300,000.
 - B) \$120,000.
 - C) \$114,000.
 - D) \$54,000.
27. Ramirez Corporation sells two types of computer chips. The sales mix is 30% (Q-Chip) and 70% (Q-Chip Plus). Q-Chip has variable costs per unit of \$36 and a selling price of \$60. Q-Chip Plus has variable costs per unit of \$42 and a selling price of \$78. The weighted-average unit contribution margin for Ramirez is (Round to nearest answer):
- A) \$28.
 - B) \$30.
 - C) \$32.
 - D) \$60.

28. Ramirez Corporation sells two types of computer chips. The sales mix is 30% (Q-Chip) and 70% (Q-Chip Plus). Q-Chip has variable costs per unit of \$36 and a selling price of \$60. Q-Chip Plus has variable costs per unit of \$42 and a selling price of \$78. Ramirez's fixed costs are \$540,000. How many units of Q-Chip would be sold at the break-even point? (Use rounded answer from previous question)
- A) 5,063
 - B) 5,869
 - C) 9,000
 - D) 11,813
29. A static budget is appropriate for
- A) variable overhead costs.
 - B) direct materials costs.
 - C) fixed overhead costs.
 - D) none of these.
30. A flexible budget
- A) is prepared when management cannot agree on objectives for the company.
 - B) projects budget data for various levels of activity.
 - C) is only useful in controlling fixed costs.
 - D) cannot be used for evaluation purposes because budgeted data are adjusted to reflect actual results.
31. A company developed the following per-unit standards for its product: 2 pounds of direct materials at \$4 per pound. Last month, 1,000 pounds of direct materials were purchased for \$3,800. The direct materials price variance for last month was
- A) \$3,800 favorable.
 - B) \$200 favorable.
 - C) \$100 favorable.
 - D) \$200 unfavorable.
32. The per-unit standards for direct materials are 2 gallons at \$4 per gallon. Last month, 5,600 gallons of direct materials that actually cost \$21,200 were used to produce 3,000 units of product. The direct materials quantity variance for last month was
- A) \$1,600 favorable.
 - B) \$1,200 favorable.
 - C) \$1,600 unfavorable.
 - D) \$2,800 unfavorable.

33. Book value of old equipment is considered to be a
- A) relevant cost.
 - B) semi-relevant cost.
 - C) sunk cost.
 - D) cost that can be changed by a present or future decision.
34. Mink Manufacturing is unsure of whether to sell its product assembled or unassembled. The unit cost of the unassembled product is \$60 and Mink would sell it for \$130. The cost to assemble the product is estimated at \$42 per unit and the company believes the market would support a price of \$170 on the assembled unit. What decision should Mink make?
- A) Sell before assembly, the company will be better off by \$2 per unit.
 - B) Sell before assembly, the company will be better off by \$40 per unit.
 - C) Process further, the company will be better off by \$58 per unit.
 - D) Process further, the company will be better off by \$28 per unit.

35. Abel Company produces three versions of baseball bats: wood, aluminum, and hard rubber. A condensed segmented income statement for a recent period follows:

	<u>Wood</u>	<u>Aluminum</u>	<u>Hard Rubber</u>	<u>Total</u>
Sales	\$500,000	\$200,000	\$65,000	\$765,000
Variable expenses	<u>325,000</u>	<u>140,000</u>	<u>58,000</u>	<u>523,000</u>
Contribution margin	175,000	60,000	7,000	242,000
Fixed expenses	<u>75,000</u>	<u>35,000</u>	<u>22,000</u>	<u>132,000</u>
Net income (loss)	<u>\$100,000</u>	<u>\$ 25,000</u>	<u>\$(15,000)</u>	<u>\$110,000</u>

Assume none of the fixed expenses for the hard rubber line are avoidable. What will be total net income if the line is dropped (Test hint: Could you also answer this question if ALL Fixed costs were avoidable???)

- A) \$125,000
- B) \$103,000
- C) \$105,000
- D) \$140,000

36. Bradford Manufacturing produces 1,000 units of a necessary component with the following costs:

Direct Materials	\$48,000
Direct Labor	32,000
Variable Overhead	8,000
Fixed Overhead	14,000

Bradford could avoid \$6,000 in fixed overhead costs if it acquires the components externally. If cost minimization is the major consideration and the company would prefer to buy the components, what is the maximum external price that Bradford would accept to acquire the 1,000 units externally?

- A) \$102,000
- B) \$94,000
- C) \$96,000
- D) \$88,000

37. Allan Co. can produce 100 units of a component part with the following costs:

Direct Materials	\$60,000
Direct Labor	26,000
Variable Overhead	64,000
Fixed Overhead	44,000

If Allan Co. can purchase the component part externally for \$176,000 and only \$16,000 of the fixed costs can be avoided, what is the correct make-or-buy decision?

- A) Make and save \$2,000
- B) Buy and save \$2,000
- C) Make and save \$10,000
- D) Buy and save \$26,000

38. Roger Industries is considering two capital investment proposals. Estimates regarding each project are provided below:

	<u>Project XR8</u>	<u>Project AAA</u>
Initial investment	\$800,000	\$1,200,000
Annual net income	40,000	84,000
Net annual cash inflow	200,000	284,000
Estimated useful life	5 years	6 years
Salvage value	0	0

The company requires a 10% rate of return on all new investments.

	<u>Present Value of an Annuity of 1</u>			
Periods	9%	10%	11%	12%
5	3.890	3.791	3.696	3.605
6	4.486	4.355	4.231	4.111

The cash payback period for Project XR8 is

- A) 20 years.
- B) 10 years.
- C) 5 years.
- D) 4 years.

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The annual rate of return for Project XR8 is

- A) 5%.
- B) 10%.
- C) 25%.
- D) 50%.

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6	4.486	4.355	4.231	4.111

The net present value for Project AAA is

- A) \$1,236,820.
- B) \$365,824.
- C) \$200,000.
- D) \$36,820.

41. Roger Industries is considering two capital investment proposals. Estimates regarding each project are provided below:

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Salvage value	0	0

The company requires a 10% rate of return on all new investments.

	<u>Present Value of an Annuity of 1</u>			
Periods	9%	10%	11%	12%
5	3.890	3.791	3.696	3.605
6	4.486	4.355	4.231	4.111

The internal rate of return for Project AAA is approximately

- A) 10%.
- B) 11%.
- C) 12%.
- D) 9%.

42. The payback method is criticized on the grounds that it
- A) ignores obsolescence factors.
 - B) ignores the cost of an investment.
 - C) is complicated to use.
 - D) ignores the time value of money.

Use the following to answer questions 43-44:

Mercantile Corporation has sales of \$1,250,000, variable costs of \$650,000, and fixed costs of \$480,000.

43. Mercantile's degree of operating leverage is
- A) 1.08.
 - B) 1.35.
 - C) 1.25.
 - D) 5.00.

44. Mercantile's margin of safety ratio is
- A) .10.
 - B) .20.
 - C) .25.
 - D) .80.

45. Bear, Inc. estimates its sales at 100,000 units in the first quarter and that sales will increase by 10,000 units each quarter over the year. They have, and desire, a 25% ending inventory of finished goods. Each unit sells for \$35. 40% of the sales are for cash. 70% of the credit customers pay within the quarter. The remainder is received in the quarter following sale.

Cash collections for the third quarter are budgeted at

- A) \$2,373,000.
- B) \$3,444,000.
- C) \$4,137,000.
- D) \$4,788,000.

46. The direct materials budget shows:

Units to be produced	4,000
Total pounds needed for production	12,000
Total materials required	15,200

What are the direct materials per unit?

- A) 3 pounds
- B) 4.0 pounds
- C) 3.8 pounds
- D) Cannot be determined from the data provided.
- E) Debits & Credits

47. The direct materials budget shows:

Desired ending direct materials	48,000 pounds
Total materials required	72,000 pounds
Direct materials purchases	63,200 pounds

The total direct materials needed for production is

- A) 24,000 pounds.
- B) 8,800 pounds.
- C) 15,200 pounds.
- D) 135,200 pounds.

Answer Key

1. D
2. D
3. D
4. C
5. B
6. B
7. C
8. B
9. C
10. A
11. A
12. A
13. C
14. C
15. C
16. A
17. A
18. A
19. C
20. A
21. A
22. A
23. C
24. B
25. C
26. D
27. C
28. A
29. C
30. B
31. B
32. A
33. C
34. A
35. B
36. B
37. C
38. D
39. B
40. D
41. B
42. D
43. D
44. B

- 45. C
- 46. A
- 47. A