

Chapter Review

Exercises

Exercise 2-27

Cost Assignment

OBJECTIVE 1 - Explain the meaning of cost and how costs are assigned to products and services.

The sales staff of Central Media (a locally owned radio and cable television station) consists of two salespeople, Derek and Lawanna. During March, the following salaries and commissions were paid:



	Derek	Lawanna
Salaries	\$25,000	\$30,000
Commissions	6,000	1,500

Derek spends 100% of his time selling advertising. Lawanna spends two-thirds of her time selling advertising and the remaining one-third on administrative work. Commissions are paid only on sales.

Required:

1. Accumulate these costs by account by filling in the following table:

Cost	Salaries	Commissions
Derek		
Lawanna		
Total		

2. Assign the costs of salaries and commissions to selling expense and administrative expense by filling in the following table:

Cost	Selling Costs	Administrative Costs
Derek's salary		
Lawanna's salary		
Derek's commissions		
Lawanna's commissions		
Total		

Exercise 2-28

Products versus Services, Cost Assignment

OBJECTIVE 1 - Explain the meaning of cost and how costs are assigned to products and services.

Holmes Company produces wooden playhouses. When a customer orders a playhouse, it is delivered in pieces with detailed instructions on how to it together. Some customers prefer that Holmes put the playhouse together. Therefore, these customers purchase the playhouse, as well as pay an additional fee for Holmes to install the playhouse. Holmes then pulls two workers off the production line and sends them to construct the playhouse on site.

Required:

1. What two products does Holmes sell? Classify each one as a product or a service.
2. **CONCEPTUAL CONNECTION** Do you think Holmes assigns costs individually to each product or service? Why or why not?
3. **CONCEPTUAL CONNECTION** Describe the opportunity cost of the installation process.

Exercise 2-29

Assigning Costs to a Cost Object, Direct and Indirect Costs

OBJECTIVE 1 - Explain the meaning of cost and how costs are assigned to products and services.

Hummer Company uses manufacturing cells to produce its products (a *cell* is a manufacturing unit dedicated to the production of subassemblies or products). One manufacturing cell produces small motors for lawn mowers. Suppose that the motor manufacturing cell is the cost object. Assume that all or a portion of the following costs must be assigned to the cell.

- a. Salary of cell supervisor
- b. Power to heat and cool the plant in which the cell is located
- c. Materials used to produce the motors
- d. Maintenance for the cell's equipment (provided by the maintenance department)
- e. Labor used to produce motors
- f. Cafeteria that services the plant's employees
- g. Depreciation on the plant
- h. Depreciation on equipment used to produce the motors
- i. Ordering costs for materials used in production
- j. Engineering support (provided by the engineering department)
- k. Cost of maintaining the plant and grounds
- l. Cost of the plant's personnel office
- m. Property tax on the plant and land

Required:

Classify each of the costs as a direct cost or an indirect cost to the motor manufacturing cell.

Exercise 2-30

Total and Unit Product Cost

OBJECTIVE 2 - Define the various costs of manufacturing products and providing services as well as the costs of selling and administration.

Martinez Manufacturing Inc. showed the following costs for last month:

Direct materials	\$7,000
Direct labor	3,000
Manufacturing overhead	2,000
Selling expense	8,000

Last month, 4,000 units were produced and sold.

Required:

1. Classify each of the costs as product cost or period cost.
2. What is total product cost for last month?
3. What is the unit product cost for last month?

Exercise 2-31

Cost Classification

OBJECTIVE 2 - Define the various costs of manufacturing products and providing services as well as the costs of selling and administration.

Loring Company incurred the following costs last year:

Direct materials	\$216,000
Factory rent	24,000
Direct labor	120,000
Factory utilities	6,300
Supervision in the factory	50,000
Indirect labor in the factory	30,000
Depreciation on factory equipment	9,000
Sales commissions	27,000
Sales salaries	65,000
Advertising	37,000
Depreciation on the headquarters building	10,000
Salary of the corporate receptionist	30,000
Other administrative costs	175,000
Salary of the factory receptionist	28,000

Required:

1. Classify each of the costs using the following table format. Be sure to total the amounts in each column. *Example:* Direct materials, \$216,000.

Costs	Product Cost			Period Cost	
	Direct Materials	Direct Labor	Manufacturing Overhead	Selling Expense	Administrative Expense
Direct materials	\$216,000				

2. What was the total product cost for last year?
3. What was the total period cost for last year?
4. If 30,000 units were produced last year, what was the unit product cost?

Exercise 2-32

Classifying Cost of Production

OBJECTIVE 2 - Define the various costs of manufacturing products and providing services as well as the costs of selling and administration.

A factory manufactures jelly. The jars of jelly are packed six to a box, and the boxes are sold to grocery stores. The following types of cost were incurred:

Jars

Sugar

Fruit

Pectin (thickener used in jams and jellies)

Boxes

Depreciation on the factory building

Cooking equipment operators' wages

Filling equipment operators' wages

Packers' wages

Janitors' wages

Receptionist's wages

Telephone

Utilities

Rental of Santa Claus suit (for Christmas party for children of factory workers)

Supervisory labor salaries

Insurance on factory building

Depreciation on factory equipment

Oil to lubricate filling equipment

Required:

Classify each of the costs as direct materials, direct labor, or overhead by using the following table. The row for “Jars” is filled in as an example.

Costs	Direct Materials	Direct Labor	Manufacturing Overhead
Jars	X		

Use the following information for [Exercises 2-33 and 2-34](#):

Grin Company manufactures digital cameras. In January, Grin produced 4,000 cameras with the following costs:

Direct materials	\$400,000
Direct labor	80,000
Manufacturing overhead	320,000

There were no beginning or ending inventories of WIP.

Exercise 2-33

Product Cost in Total and Per Unit

OBJECTIVE 2 - Define the various costs of manufacturing products and providing services as well as the costs of selling and administration.

Refer to the information for Grin Company above.

Required:

1. What was total product cost in January?
2. What was product cost per unit in January?

Exercise 2-34

Prime Cost and Conversion Cost

OBJECTIVE 2 - Define the various costs of manufacturing products and providing services as well as the costs of selling and administration.

Refer to the information for Grin Company above.

Required:

1. What was the total prime cost in January?
2. What was the prime cost per unit in January?
3. What was the total conversion cost in January?
4. What was the conversion cost per unit in January?

Exercise 2-35

Direct Materials Used

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Hannah Banana Bakers makes chocolate chip cookies for cafe restaurants. In June, Hannah Banana purchased \$15,500 of materials. On June 1, the materials inventory was \$3,700. On June 30, \$1,600 of materials remained in materials inventory.

Required:

1. What is the cost of the direct materials used in production during June?
2. **CONCEPTUAL CONNECTION** Briefly explain why there is a difference between the cost of direct materials that were *purchased* during the month and the cost of direct materials that were *used* in production during the month.

Exercise 2-36

Cost of Goods Sold

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Allyson Ashley makes jet skis. During the year, Allyson manufactured 94,000 jet skis. Finished goods inventory had the following units:

January 1	6,800
December 31	7,200

Required:

1. How many jet skis did Allyson sell during the year?
2. If each jet ski had a product cost of \$2,200, what was the cost of goods sold last year?

Use the following information for [Exercises 2-37](#) and [2-38](#):

In March, Chilton Company purchased materials costing \$25,000 and incurred direct labor cost of \$10,000. Overhead totaled \$42,000 for the month. Information on inventories was as follows:

	March 1	March 31
Materials	\$14,000	\$6,500
Work in process	8,000	4,000
Finished goods	9,000	7,000

Exercise 2-37

Direct Materials Used, Cost of Goods Manufactured

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Refer to the information for Chilton Company above.

Required:



1. What was the cost of direct materials used in March?
2. What was the total manufacturing cost in March?
3. What was the cost of goods manufactured for March?

Exercise 2-38

Cost of Goods Sold

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Refer to the information for Chilton Company above.

Required:

What was the cost of goods sold for March?

Use the following information for [Exercises 2-39 through 2-41](#).

Jasper Company provided the following information for last year:

Sales in units	280,000
Selling price	\$ 12
Direct materials	180,000
Direct labor	505,000
Manufacturing overhead	110,000
Selling expense	437,000
Administrative expense	854,000

Last year, beginning and ending inventories of work in process and finished goods equaled zero.

Exercise 2-39

Cost of Goods Sold, Sales Revenue, Income Statement

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Refer to the information for Jasper Company above.

Required:

Calculate the cost of goods sold for last year.

Exercise 2-40

Income Statement

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Refer to the information for Jasper Company above.

Required:

1. Calculate the sales revenue for last year.
2. Prepare an income statement for Jasper for last year.

Exercise 2-41

Income Statement

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Refer to the information for Jasper Company above.

Required:



1. Prepare an income statement for Jasper for last year.
Calculate the percentage of sales for each line item on the income statement.
(Note: Round percentages to the nearest tenth of a percent.)
2. **CONCEPTUAL CONNECTION** Briefly explain how a manager could use the income statement created for Requirement 1 to better control costs.

Exercise 2-42

Understanding the Relationship between Cost Flows, Inventories, and Cost of Goods Sold

OBJECTIVE 3 - Prepare income statements for manufacturing and service organizations.

Ivano Company has collected cost accounting information for the following subset of items for Years 1 and 2.

	Year 1	Year 2
Item:		
Direct materials used in production	a	\$50,000
Direct materials: Beginning inventory	\$ 10,000	c
Direct materials purchases	45,000	d
Direct materials: Ending inventory	15,000	17,000
Direct labor used in production	b	53,000
Manufacturing overhead costs used in production	80,000	76,000
Work in process: Beginning inventory	17,000	14,000
Work in process: Ending inventory	14,000	19,000
Finished goods: Beginning inventory	8,000	7,000
Finished goods: Ending inventory	7,000	11,000
Cost of goods sold	169,000	e

Required:

Calculate the values of the missing Items a through e.

Chapter 2: Basic Managerial Accounting Concepts Exercises

Book Title: Cornerstones of Managerial Accounting

Printed By: Antonio Medina Sosa (amedinasosa@fnu.edu)

© 2015 Cengage Learning, Cengage Learning

© 2017 Cengage Learning Inc. All rights reserved. No part of this work may be reproduced or used in any form or by any means - graphic, electronic, or mechanical, or in any other manner - without the written permission of the copyright holder.