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Chapter 02
Cost Concepts and Behavior

Essay Questions

87. The following information is available for the Netland Consulting Company for the fiscal year ended December 31.

Gross margin	\$170,000
Operating profit	\$ 65,500
Revenues	\$809,000
Income tax rate	34%

service

S	809,000
CGS	639,000 (a)
GM	170,000
- S&A	104,500 (b)
NI _{BT}	65,500
Tax	22,270 34%
NI _{AT}	43,230 (c)

Required:

- (a) Compute the cost of services sold. \approx CGS
- (b) Compute the total marketing and administrative costs.
- (c) Compute net income.

- (a) $\$809,000 - x = \$170,000$; $x = \underline{\$639,000}$
- (b) $\$170,000 - x = \$65,500$; $x = \underline{\$104,500}$
- (c) $\$65,500 - [(.34)(\$65,500)] = x$; $x = \underline{\$43,230}$

AACSB: Analytic
 AICPA: FN-Measurement
 Bloom's: Application
 Difficulty: Easy
 Learning Objective: 2
 Topic Area: Service Organizations

Chapter 02 - Cost Concepts and Behavior

88. The following information is available for the Ridgedale Manufacturing Company for the fiscal year ended December 31.

Revenues	\$900,000
Gross margin	\$315,000
Operating profit	85,000
Income tax rate	32%

Required:

- (a) Compute the cost of goods sold.
- (b) Compute the total marketing and administrative costs.
- (c) Compute net income.

(a) $\$900,000 - x = \$315,000$; $x = \underline{\$585,000}$

(b) $\$315,000 - x = \$85,000$; $x = \underline{\$230,000}$

(c) $\$85,000 - (.32 \times \$85,000) = \underline{\$57,800}$

AACSB: Analytic

AICPA: FN-Measurement

Bloom's: Application

Difficulty: Easy

Learning Objective: 2

Topic Area: Manufacturing Companies

89. The following information is available for the Roberts Retail Store for the fiscal year ended December 31.

Ending inventory	\$100,100
Transportation-in costs	\$ 8,900
Purchase discounts	\$ 15,000
Beginning inventory	\$ 79,000
Merchandise cost	\$450,000 ✓
Purchase returns and allowances	\$ 6,200 ✓
Sales revenue	\$800,000 ✓
Sales discounts	\$ 12,500 ✓

Required:

- (a) Prepare a cost of goods sold statement for Roberts Retail Store.
 (b) Compute the gross margin for the fiscal year ended December 31.

(a)		
Beginning inventory		\$ 79,000
Cost of goods purchased:		
Merchandise (cost)	\$450,000	
Purchase returns	(6,200)	
Purchase discounts	(15,000)	
Transportation-in costs	<u>8,900</u>	
Total cost of goods purchased		<u>437,700</u>
Cost of goods available for sale		516,700
Ending inventory		<u>(100,100)</u>
Cost of goods sold		<u>\$416,600</u>
(b)		
Sales revenue (gross)	\$800,000	
Less sales discounts	<u>(12,500)</u>	
Sales revenues (net)		\$787,500
Cost of goods sold		<u>416,600</u> ←
Gross margin		<u>\$370,900</u>

AACSB: Analytic
 AICPA: FN-Measurement
 Bloom's: Application
 Difficulty: Easy
 Learning Objective: 2
 Topic Area: Presentation of Costs in Financial Statements

(000)			(000)	
Inventory			S gross	800
79	15			<u>(12.5)</u>
8.9	6.2		S net	787.5
450	416.6	CGS		<u>416.6</u>
		(a)		<u>370.9</u>
<u>100.1</u>			GM	<u>370.9</u>
				(b)

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Transportation-in costs	\$ 8,900
Purchase discounts	\$ 15,000
Beginning inventory	\$ 79,000
Merchandise cost	\$450,000
Purchase returns and allowances	\$ 6,200
Sales revenue	\$800,000
Sales discounts	\$ 12,500

Required:

- (a) Prepare a cost of goods sold statement for Roberts Retail Store.
 (b) Compute the gross margin for the fiscal year ended December 31.

(a)

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Cost of goods purchased:		
Merchandise (cost)	\$450,000	
Purchase returns	(6,200)	
Purchase discounts	(15,000)	
Transportation-in costs	<u>8,900</u>	
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Cost of goods available for sale		516,700
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(b)

Sales revenue (gross)	\$800,000	
Less sales discounts	<u>(12,500)</u>	
Sales revenues (net)		\$787,500
Cost of goods sold		<u>416,600</u>
Gross margin		<u>\$370,900</u>

AACSB: Analytic
AICPA: FN-Measurement
Bloom's: Application
Difficulty: Easy
Learning Objective: 2
Topic Area: Presentation of Costs in Financial Statements

90. Required:

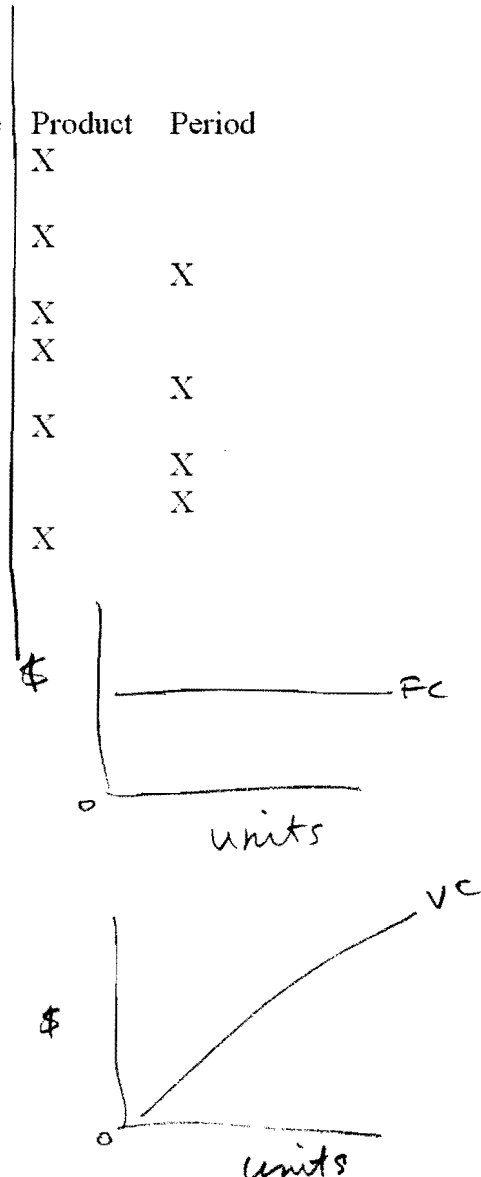
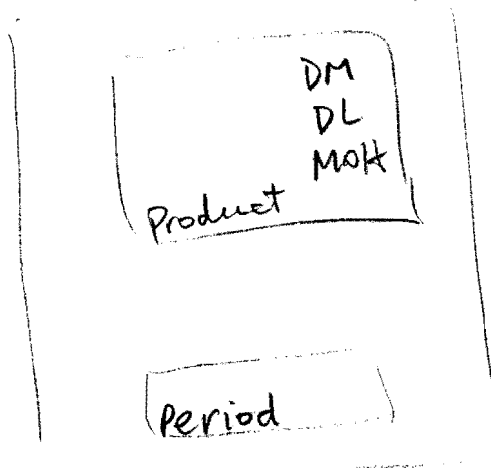
For each of the following costs incurred in a manufacturing company, indicate whether the costs are (a) fixed or variable and (b) product costs or period costs.

	Cost Item	Fixed	Variable	Product	Period
0	Annual audit and tax return fees	X			X
1	Costs (other than food) of running the cafeteria for factory personnel				
2	Direct materials used				
3	Clerical staff in administrative offices				
4	Depreciation of factory machinery*				
5	Property taxes on the factory				
6	Insurance premiums on delivery vans				
7	Factory custodian pay				
8	Sales commissions				
9	Rent paid for corporate jet				
10	Transportation-in costs for indirect material				

* Straight-line depreciation method used.

	Cost Item	Fixed	Variable	Product	Period
1	Costs (other than food) of running the cafeteria for factory personnel	X		X	
2	Direct materials used		X	X	
3	Clerical staff in administrative offices	X			X
4	Depreciation of factory machinery*	X		X	
5	Property taxes on the factory	X		X	
6	Insurance premiums on delivery vans	X			X
7	Factory custodian pay	X		X	
8	Sales commissions		X		X
9	Rent paid for corporate jet	X			X
10	Transportation-in costs for indirect material		X	X	

AACSB: Analytic
 AICPA: FN-Measurement
 Bloom's: Application
 Difficulty: Easy
 Learning Objective: 4
 Learning Objective: 5
 Topic Area: Cost Behavior



92. The following cost and inventory data were taken from the records of the Beca Company for the year:

Costs incurred:

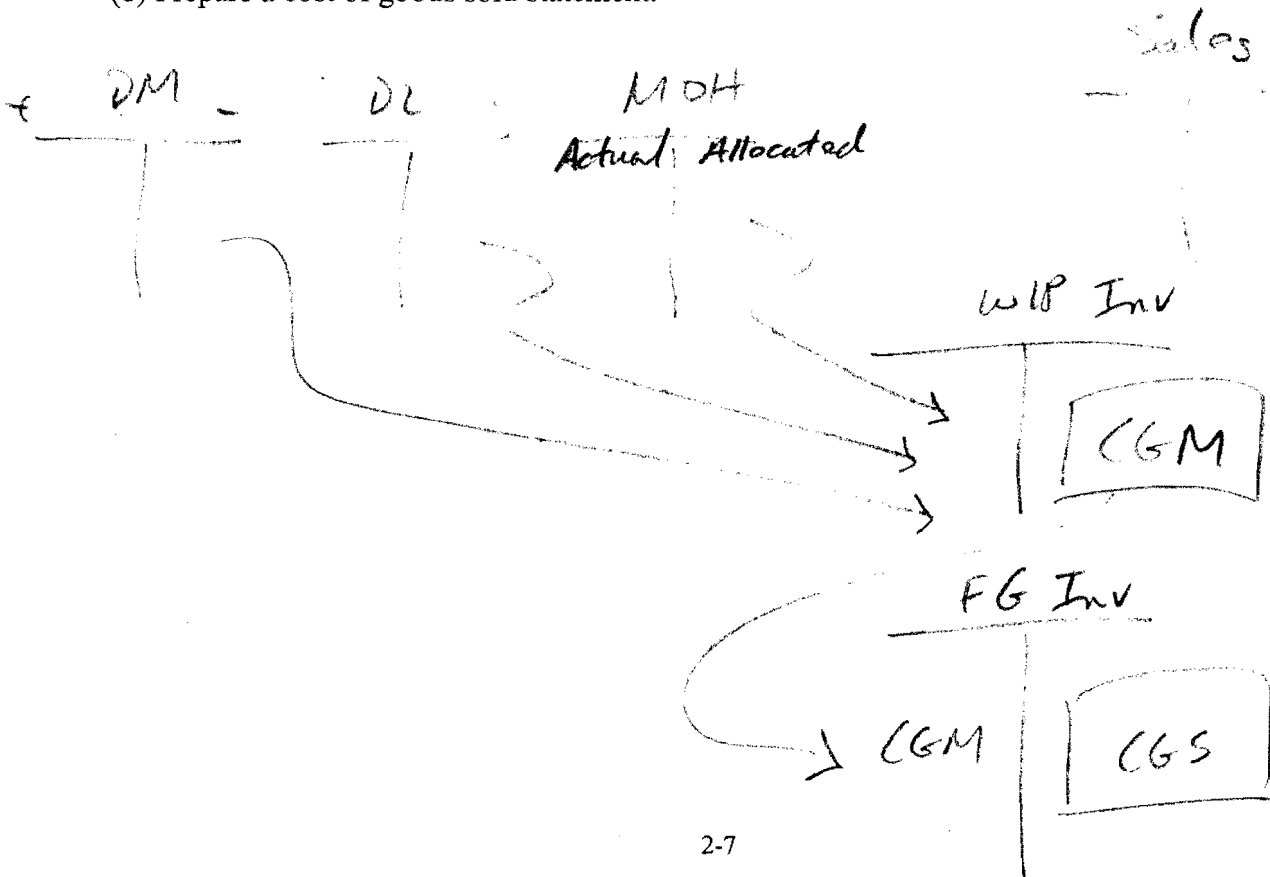
Depreciation, factory equipment	\$30,000
Depreciation, office equipment	7,000
Supplies, factory	1,500
Maintenance, factory equipment	20,000
Utilities, factory	8,000
Sales commissions	30,000
Indirect labor	54,500
Rent, factory building	70,000
Purchases of direct materials (net)	124,000
Direct labor	80,000
Advertising expense	90,000

Inventories:

	<u>January 1</u>	<u>December 31</u>
Direct materials	\$9,000	\$11,000
Work in process	6,000	21,000
Finished goods	69,000	24,000

Required:

- (a) Compute the cost of goods manufactured.
- (b) Prepare a cost of goods sold statement.



Chapter 02 - Cost Concepts and Behavior

(a)

	Beginning work in process inventory		\$ 6,000
	Manufacturing costs during the year:		
	Direct materials		
	Beginning inventory	\$ 9,000	
	Purchases (net)	<u>124,000</u>	
DM	Direct materials available	133,000	
	Ending inventory	<u>- 11,000</u>	
	Direct materials put into production		122,000
DL	Direct labor		80,000
	Manufacturing overhead		
	Depreciation	\$ 30,000	
	Supplies	1,500	
	Maintenance	20,000	
Molt	Utilities	8,000	
	Indirect labor	54,500	
	Rent	<u>70,000</u>	
	Total manufacturing overhead		<u>184,000</u>
	Total manufacturing costs incurred		386,000
WIP	Ending work in process inventory		<u>- 21,000</u>
	Cost of goods manufactured		<u>\$371,000</u>

(b)

Beginning finished goods inventory	\$ 69,000
Cost of goods manufactured	<u>371,000</u>
Cost of goods available for sale	440,000
Ending finished goods inventory	<u>- 24,000</u>
Cost of goods sold	<u>\$416,000</u>

AACSB: Analytic
 AICPA: FN-Measurement
 Bloom's: Analysis
 Difficulty: Medium
 Learning Objective: 3
 Topic Area: Cost Allocation

93. The Matter Manufacturing Company provided you with the following information for the fiscal year ended December 31.

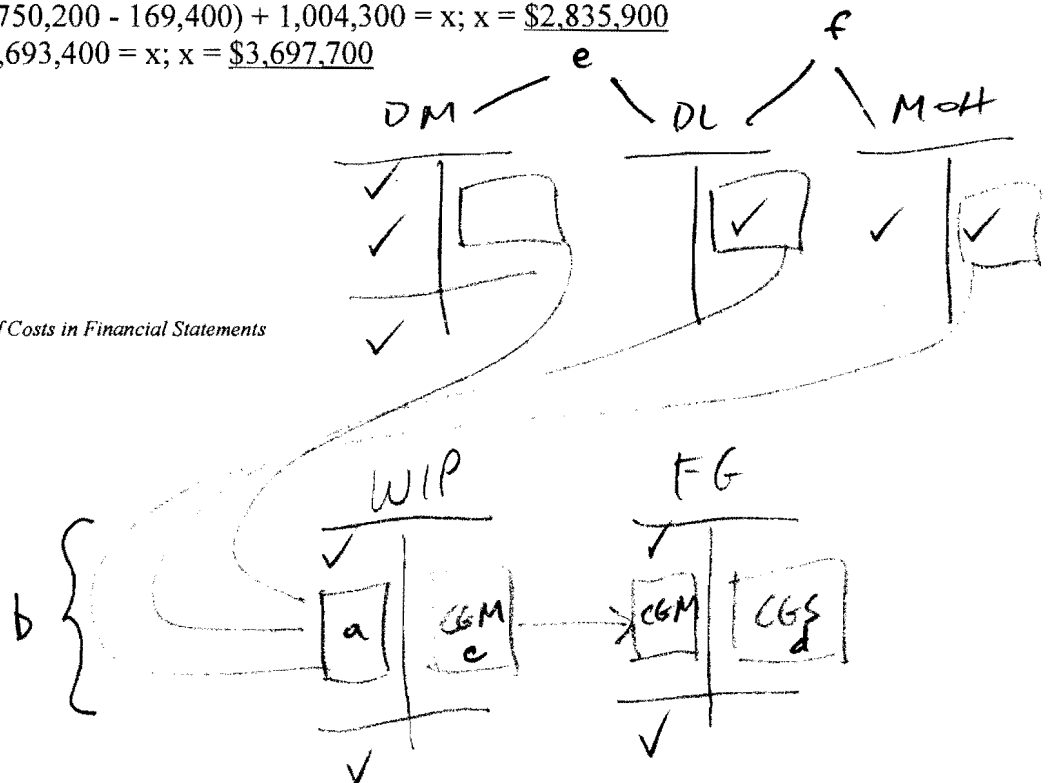
Work-in-process inventory, 12/31	\$ 57,900
Finished goods inventory, 1/1	307,400
Direct labor costs incurred	1,004,300
Manufacturing overhead costs	2,693,400
Direct materials inventory, 1/1	250,800
Finished goods inventory, 12/31	511,000
Direct materials purchased	1,750,200
Work-in-process inventory, 1/1	101,000
Direct materials inventory, 12/31	169,400

Required:

- Compute the total manufacturing costs incurred during the year.
- Compute the total work-in-process during the year.
- Compute the cost of goods manufactured during the year.
- Compute the cost of goods sold during the year.
- Compute the total prime costs for the year.
- Compute the total conversion costs for the year.

- (a) $(\$250,800 + 1,750,200 - 169,400) + 1,004,300 + 2,693,400 = x$; $x = \underline{\$5,529,300}$
 (b) $\$101,000 + 5,529,300 = x$; $x = \underline{\$5,630,300}$
 (c) $\$101,000 + 5,529,300 - 57,900 = x$; $x = \underline{\$5,572,400}$
 (d) $\$307,400 + 5,572,400 - 511,000 = x$; $x = \underline{\$5,368,800}$
 (e) $(\$250,800 + 1,750,200 - 169,400) + 1,004,300 = x$; $x = \underline{\$2,835,900}$
 (f) $\$1,004,300 + 2,693,400 = x$; $x = \underline{\$3,697,700}$

AACSB: Analytic
 AICPA: FN-Measurement
 Bloom's: Application
 Difficulty: Medium
 Learning Objective: 4
 Learning Objective: 5
 Topic Area: Presentation of Costs in Financial Statements



93. The Matter Manufacturing Company provided you with the following information for the fiscal year ended December 31.

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Finished goods inventory, 1/1	307,400
Direct labor costs incurred	1,004,300
Manufacturing overhead costs	2,693,400
Direct materials inventory, 1/1	250,800
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Work-in-process inventory, 1/1	101,000
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Required:

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- Compute the total work-in-process during the year.
- Compute the cost of goods manufactured during the year.
- Compute the cost of goods sold during the year.
- Compute the total prime costs for the year.
- Compute the total conversion costs for the year.

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AACSB: Analytic

AICPA: FN-Measurement

Bloom's: Application

Difficulty: Medium

Learning Objective: 4

Learning Objective: 5

Topic Area: Presentation of Costs in Financial Statements