

Managerial Accounting Midterm

1. For a lamp manufacturing company, the cost of the insurance on its vehicles that deliver lamps to customers is best described as a:
 - A. prime cost.
 - B. manufacturing overhead cost.
 - C. period cost.**
 - D. differential (incremental) cost of a lamp.

2. Each of the following would be a period cost except:
 - A. the salary of the company president's secretary.
 - B. the cost of a general accounting office.
 - C. depreciation of a machine used in manufacturing.**
 - D. sales commissions.

3. Which of the following costs is an example of a period rather than a product cost?
 - A. Depreciation on production equipment.
 - B. Wages of salespersons.**
 - C. Wages of production machine operators.
 - D. Insurance on production equipment.

4. Which of the following would NOT be treated as a product cost for external financial reporting purposes?
 - A. Depreciation on a factory building.
 - B. Salaries of factory workers.
 - C. Indirect labor in the factory.
 - D. Advertising expenses.**

5. The salary of the president of a manufacturing company would be classified as which of the following?
 - A. Product cost
 - B. Period cost**
 - C. Manufacturing overhead
 - D. Direct labor

6. Conversion costs do NOT include:
 - A. depreciation.
 - B. direct materials.**
 - C. indirect labor.
 - D. indirect materials.

7. Variable cost:

- A. increases on a per unit basis as the number of units produced increases.
- B. remains constant on a per unit basis as the number of units produced increases.**
- C. remains the same in total as production increases.
- D. decreases on a per unit basis as the number of units produced increases.

8. In describing the cost formula equation $Y = a + bX$, which of the following statements is correct?

- A. "X" is the dependent variable.
- B. "a" is the fixed component.**
- C. In the high-low method, "b" equals change in activity divided by change in costs.
- D. As "X" increases "Y" decreases.

9. Which of the following is the correct formula to compute the predetermined overhead rate?

- A. Estimated total units in the allocation base divided by estimated total manufacturing overhead costs.
- B. Estimated total manufacturing overhead costs divided by estimated total units in the allocation base.**
- C. Actual total manufacturing overhead costs divided by estimated total units in the allocation base.
- D. Estimated total manufacturing overhead costs divided by actual total units in the allocation base.

10. A proper journal entry to close overapplied manufacturing overhead to Cost of Goods Sold would be:

A)	Cost of Goods Sold	XXX	
	Work in Process		XXX
B)	Cost of Goods Sold	XXX	
	Manufacturing Overhead		XXX
C)	Cost of Goods Sold	XXX	
	Finished Goods		XXX
D)	Manufacturing Overhead	XXX	
	Cost of Goods Sold		XXX

- A. Option A
- B. Option B
- C. Option C
- D. Option D**

11. The journal entry to record the incurrence of indirect labor costs is:

A)	Wages Payable	XXX	
	Manufacturing Overhead		XXX
B)	Work In Process	XXX	
	Wages Payable		XXX
C)	Manufacturing Overhead	XXX	
	Wages Payable		XXX
D)	Wages Payable	XXX	
	Work In Process		XXX

- A. Option A
- B. Option B
- C. Option C**
- D. Option D

12. In a job-order costing system, indirect materials that have been previously purchased and that are used in production are recorded as a debit to:

- A. Work in Process inventory.
- B. Manufacturing Overhead.**
- C. Finished Goods inventory.
- D. Raw Materials inventory.

13. Compton Company uses a predetermined overhead rate in applying overhead to production orders on a labor cost basis in Department A and on a machine-hours basis in Department B. At the beginning of the most recently completed year, the company made the following estimates:

	Dept. A	Dept. B
Direct labor cost	\$56,000	\$33,000
Manufacturing overhead.....	\$67,200	\$45,000
Direct labor-hours	8,000	9,000
Machine-hours.....	4,000	15,000

What predetermined overhead rate would be used in Department A and Department B, respectively?

- A. 83% and \$5
- B. 83% and \$3
- C. 120% and \$3**
- D. 83% and \$3

14. Newburn Corporation's most recent balance sheet appears below:

Comparative Balance Sheet		
	Ending Balance	Beginning Balance
Assets:		
Cash and cash equivalents	\$ 32	\$ 26
Accounts receivable	74	66
Inventory	59	53
Property, plant and equipment	506	440
Less accumulated depreciation	<u>213</u>	<u>180</u>
Total assets	<u>\$458</u>	<u>\$405</u>
Liabilities and stockholders' equity:		
Accounts payable	\$ 46	\$ 53
Bonds payable	357	340
Common stock	41	40
Retained earnings	<u>14</u>	<u>(28)</u>
Total liabilities and stockholders' equity	<u>\$458</u>	<u>\$405</u>

The company's net income for the year was \$53 and it did not sell or retire any property, plant, and equipment during the year. Cash dividends were \$11. The net cash provided by (used in) investing activities for the year was:

- A. \$(33)
- B. \$33
- C. \$(66)**
- D. \$66

15. Lueckenhoff Corporation's most recent balance sheet appears below:

Comparative Balance Sheet		
	Ending Balance	Beginning Balance
Assets:		
Cash and cash equivalents	\$ 34	\$ 29
Accounts receivable	44	41
Inventory	72	60
Property, plant and equipment	610	550
Less accumulated depreciation	<u>274</u>	<u>229</u>
Total assets	<u>\$486</u>	<u>\$451</u>
Liabilities and stockholders' equity:		
Accounts payable	\$ 32	\$ 28
Bonds payable	305	400
Common stock	51	50
Retained earnings	<u>98</u>	<u>(27)</u>
Total liabilities and stockholders' equity	<u>\$486</u>	<u>\$451</u>

The company's net income for the year was \$153 and it did not sell or retire any property, plant, and equipment during the year. Cash dividends were \$28. The net cash provided by (used in) operating activities for the year was:

- A. \$34
- B. \$187**
- C. \$119
- D. \$219

16. Excerpts from Dibello Corporation's comparative balance sheet appear below:

	Ending Balance	Beginning Balance
Cash and cash equivalents	\$22,000	\$27,000
Accounts receivable	\$19,000	\$22,000
Inventory	\$77,000	\$74,000

Which of the following is the correct treatment within the operating activities section of the statement of cash flows using the indirect method?

- A. The change in Accounts Receivable is added to net income; The change in Inventory is added to net income
- B. The change in Accounts Receivable is added to net income; The change in Inventory is subtracted from net income**
- C. The change in Accounts Receivable is subtracted from net income; The change in Inventory is subtracted from net income
- D. The change in Accounts Receivable is subtracted from net income; The change in Inventory is added to net income

17. The formula for the gross margin percentage is:

- A. $(\text{Sales} - \text{Cost of goods sold}) / \text{Cost of goods sold}$
- B. $(\text{Sales} - \text{Cost of goods sold}) / \text{Sales}$**
- C. $\text{Net income} / \text{Sales}$
- D. $\text{Net income} / \text{Cost of goods sold}$

18. The ratio of cash, trade receivables, and marketable securities to current liabilities is:

- A. the working capital of a company.
- B. the acid-test ratio.**
- C. the current ratio.
- D. the debt to equity ratio.

19. Ozols Corporation's most recent income statement appears below:

Sales (all on account)	\$643,000
Cost of goods sold	<u>285,000</u>
Gross margin	358,000
Selling and administrative expense	<u>155,000</u>
Net operating income	203,000
Interest expense	<u>34,000</u>
Net income before taxes	169,000
Income taxes	<u>50,000</u>
Net income	<u>\$119,000</u>

The gross margin percentage is closest to:

- A. 33.2%
- B. 55.7%**
- C. 300.8%
- D. 125.6%

20. The following data have been taken from your company's financial records for the current year:

Earnings per share	\$15
Dividend per share	\$9
Market price per share	\$120
Book value per share	\$90

The price-earnings ratio is:

- A. 12.5
- B. 6.0
- C. 8.0**
- D. 7.540.

21. Data concerning Bouerneuf Company's common stock follow:

Book value per share	\$24.00
Market value per share	\$18.00
Earnings per share	\$6.00
Par value per share	\$4.00
Dividend per share	\$1.00

The price-earnings ratio would be:

- A. 2.00
- B. 2.67
- C. 3.00**
- D. 4.00

22. Hagerman Corporation's most recent income statement appears below:

Sales (all on account)	\$200,000
Cost of goods sold	<u>120,000</u>
Gross margin	80,000
Selling and administrative expense	<u>40,000</u>
Net operating income	40,000
Interest expense	<u>10,000</u>
Net income before taxes	30,000
Income taxes (30%)	<u>9,000</u>
Net income	<u>\$ 21,000</u>

The beginning balance of total assets was \$140,000 and the ending balance was \$90,000. The return on total assets is closest to:

- A. 18.3%
- B. 24.3%**
- C. 34.8%
- D. 26.1%

23. Excerpts from Lasso Corporation's most recent balance sheet appear below:

	Year 2	Year 1
Preferred stock	\$ 100,000	\$ 100,000
Common stock	400,000	400,000
Additional paid-in capital--common stock	250,000	250,000
Retained earnings	<u>400,000</u>	<u>330,000</u>
Total stockholders' equity	<u>\$1,150,000</u>	<u>\$1,080,000</u>

Net income for Year 2 was \$145,000. Dividends on common stock were \$55,000 in total and dividends on preferred stock were \$20,000 in total. The return on common stockholders' equity for Year 2 is closest to:

- A. 12.3%**
- B. 8.1%
- C. 13.0%
- D. 14.3%

24. Data from Saldivar Corporation's most recent balance sheet appear below:

Preferred stock	\$ 200,000
Common stock	300,000
Additional paid-in capital--common stock	110,000
Retained earnings	<u>570,000</u>
Total stockholders' equity	<u>\$1,180,000</u>

A total of 150,000 shares of common stock and 40,000 shares of preferred stock were outstanding at the end of the year. The book value per share is closest to:

- A. \$2.73
- B. \$5.00
- C. \$6.53**
- D. \$7.87

25. Fraser Company had \$130,000 in sales on account last year. The beginning accounts receivable balance was \$10,000 and the ending accounts receivable balance was \$14,000. The company's accounts receivable turnover was closest to:

- A. 5.42
- B. 13.00
- C. 9.29
- D. 10.83**

26. Escatel Corporation bases its predetermined overhead rate on the estimated labor-hours for the upcoming year. Data for the most recently completed year appear below:

Estimates made at the beginning of the year:		
Estimated labor-hours	24,000	
Estimated variable manufacturing overhead	\$6.86	per labor-hour
Estimated total fixed manufacturing overhead	\$394,560	
Actual labor-hours for the year	24,500	

Required: Compute the company's predetermined overhead rate for the recently completed year.

$$\text{Estimated total manufacturing overhead} = \$394,560 + (\$6.86 \text{ per labor-hour} \times 24,000 \text{ labor-hours}) = \$559,200$$

$$\text{Predetermined overhead rate} = \text{Estimated total manufacturing overhead} \div \text{Estimated total amount of the allocation base} = \$559,200 \div 24,000 \text{ labor-hours} = \$23.30 \text{ per labor-hour}$$

27. During June, Catlin Corporation purchased \$76,000 of raw materials on credit to add to its raw materials inventory. A total of \$81,000 of raw materials was requisitioned from the storeroom for use in production. These requisitioned raw materials included \$5,000 of indirect materials.

Required: Prepare journal entries to record the purchase of materials and their use in production.

Raw Materials.....	76,000	
Accounts Payable.....		76,000
Work in Process	76,000	
Manufacturing Overhead.....	5,000	
Raw Materials.....		81,000

28. Slonaker Inc. has provided the following data concerning its maintenance costs:

	Machine-Hours	Maintenance Cost
April	5,799	\$30,379
May	5,782	\$30,289
June	5,764	\$30,237
July	5,761	\$30,233
August	5,717	\$30,078
September	5,795	\$30,360
October	5,809	\$30,388
November	5,801	\$30,378
December	5,785	\$30,318

Management believes that maintenance cost is a mixed cost that depends on machine-hours.

Required:

Estimate the variable cost per machine-hour and the fixed cost per month using the high-low method. Show your work!

	Machine-Hours	Maintenance Cost
High activity level	5,809	\$30,388
Low activity level	5,717	\$30,078

$$\begin{aligned}
 \text{Variable cost} &= \text{Change in cost} \div \text{Change in activity} \\
 &= (\$30,388 - \$30,078) \div (5,809 \text{ machine-hours} - 5,717 \text{ machine-hours}) \\
 &= \$310 \div 92 \text{ machine-hours} \\
 &= \$3.37 \text{ per machine-hour} \\
 \text{Fixed cost element} &= \text{Total cost} - \text{Variable cost element} \\
 &= \$30,078 - (\$3.37 \text{ per machine-hour} \times 5,717 \text{ machine-hours}) \\
 &= \$10,812
 \end{aligned}$$

29. Kawalek Corporation's balance sheet appears below:

Comparative Balance Sheet		
	Ending Balance	Beginnin g Balance
Assets:		
Cash and cash equivalents	\$ 35	\$ 36
Accounts receivable	62	53
Inventory	64	65
Property, plant and equipment	722	600
Less accumulated depreciation	<u>303</u>	<u>287</u>
Total assets	<u>\$580</u>	<u>\$467</u>
Liabilities and stockholders' equity:		
Accounts payable	\$ 56	\$ 47
Accrued liabilities	22	23
Income taxes payable	46	42
Bonds payable	289	300
Common stock	53	50
Retained earnings	<u>114</u>	<u>5</u>
Total liabilities and stockholders' equity	<u>\$580</u>	<u>\$467</u>

The net income for the year was \$151. Cash dividends were \$42. The company did not dispose of any property, plant, and equipment, issue any bonds payable, or repurchase any of its own common stock during the year.

Required: Prepare a statement of cash flows in good form using the indirect method.

Net income		\$151
Adjustments to convert net income to a cash basis:		
Depreciation	\$16	
Increase in accounts receivable	(9)	
Decrease in inventory	1	
Increase in accounts payable	9	
Decrease in accrued liabilities	(1)	
Increase in income taxes payable	4	20
Net cash provided by operating activities		171
Investing activities:		
Purchase of property, plant and equipment	(122)	
Net cash used in investing activities		(122)
Financing activities:		
Retirement of bonds payable	(11)	
Issuance of common stock	3	
Cash dividends	(42)	
Net cash used in financing activities		(50)
Net change in cash and cash equivalents		(1)
Cash balance, beginning		36
Cash balance, ending		\$35