

Accounting 2037 Exam 1 with Answers: Fall 2012

Completion [2 pts each] Complete each sentence or statement with one of the phrases below.

Possible answers:

| | | |
|---------------------------|---------------------------|----------------------|
| Available costs | Budget overhead rate | Contribution margin |
| Cost drivers | Expense | Incremental costs |
| Internal failure costs | ISO 9000 | Kaizen |
| Labor efficiency standard | Labor efficiency variance | Labor price standard |
| Make or buy | Manufacturing cells | Net income |
| Prevention costs | Price standard | Product mix |
| Quantity standard | Special order | TQM |

1. In determining allocation of advertising dollars, the company's profit increases if the contribution margin resulting from the increased sales is more than the increase in advertising costs.
2. Manufacturing costs become a(n) expense only when the company sells finished goods inventory.
3. The labor efficiency variance is the difference between the cost of the direct labor hours that should have been used (at the standard price) that the company did use.
4. The activities on which a company bases cost pools for factory overhead are often called cost drivers.
5. Incremental costs are cost increases resulting from the performance of an additional activity.

True/False [2 pts each]

Indicate whether the sentence or statement is true or false.

6. In the make versus buy decision, concerns about control of quality and reliability could well override choosing the lowest cost supplier provided part. **T**
7. Process costing systems are appropriate in any manufacturing situation that involves a processing of unique products in small quantities. **F**
8. A manager practicing the principle of management by exception in variance analysis would examine each and every variance each time one occurred. **F**
9. Activity based costing is less expensive to use. **F**
10. The key to evaluating the profit effects of a company's decision to drop a product is to determine the avoidable costs and the revenue that it would not earn if it discontinued production and sale of the product. **T**

Multiple Choice [2 pts each] *Identify the letter of the choice that best completes the statement or answers the question.*

11. Which of the following is **not** included in factory overhead?
 - a. **Direct labor**
 - b. Indirect labor
 - c. Raw materials that cannot be traced directly to a product
 - d. None of the above
12. What cannot be traced back to a unit of production?
 - a. **Factory overhead**
 - b. Direct labor costs
 - c. Raw materials
 - d. Conversion cost
13. What is a direct materials price variance?
 - a. **The difference between the standard cost that a company should have incurred to acquire the direct materials and the actual cost it did incur to acquire the direct materials.**

- b. The amount of direct materials that should be used for the company's actual production level.
- c. The difference between the standard cost of the quantity of direct materials that a company should have used for the actual number of units produced and the standard cost of the quantity of direct materials that it did use to produce those units
- d. None of the above

14. Which of the following statements is false?

- a. Variances point to problems and to possible causes of problems
- b. **Favorable variances are always good.**
- c. Variances should be measured as quickly and as possible after they occur so that managers can recognize problems early and correct them before they cause too much damage.
- d. All of the above statements are true.

15. A company would decide to drop a product if:

- a. The relevant costs are greater than the costs of another alternative
- b. The revenues are less than the sunk costs
- c. **The avoidable costs are greater than the foregone revenues**
- d. The revenues are less than the revenues of another alternative

Problem 1 [18 points]

The Ray Manufacturing Company uses a job order cost accounting system (not standard costs). During the month of April, the company completed the following transactions:

Required: for each event/transaction use the table below to indicate the accounts affected, whether it increased or decreased and by how much.

- a) Purchased \$1,200 of raw materials on account. (use row 1 in the table)
- b) \$1,400 of raw materials were issued by the storekeeper for job #12. \$1,275 of these were considered to be direct materials while the remainder were classified as indirect materials. (you may use two rows if you'd like.)
- c) Factory personnel earned total wages of \$21,000 for job #12 but have not yet been paid. Labor tickets indicated that, of that amount, \$15,000 was for direct labor on specific job orders. (you may use two rows if you'd like)