1.

value:
3.00 points

The managerial accounting reports of a company would be of most interest and benefit to the company's:

- bankers.
- shareholders.
- bondholders.
- → production manager.

Management accounting is concerned with providing information to managers-that is, people inside an organization who direct and control its operations. Therefore, managerial accounting reports will be of most interest to the production manager.

References

Multiple Choice Difficulty: Basic

2.

value:
3.00 points

Noel Stewart bought a machine two years ago for £500. He must now replace the old machine by buying a new model 206 for £700 or a used model 204 for £650.

In making his decision, Noel would consider the differential cost to be:

→ ○ £50.

○ £200.

○ £150.

○ £500

Cost of model 206	£700
Cost of model 204	650
Differential cost (£700 − £650)	£50

References

Multiple Choice Difficulty: Intermediate

3.

value:
3.00 points

Noel Stewart bought some materials 2 years ago for £300. These materials have simply been left in Inventory as they were not needed. A new customer offers to buy a product that uses these materials. The conversion cost is £500 and the customer has offered to pay £650 for the product. Noel decides to accept the order.

In this decision the company is better off by:

→ ○ £150.

○ £350.

○ £300.

○ £0.

Conversion cost (a)	£500
Offer price (b)	650
Company is better off by (b – a)	£150

References

Multiple Choice Difficulty: Intermediate

4.

value:
3.00 points

Noel Stewart has estimated that the total fixed costs for his department are £10,000. He also estimated that his variable cost per unit is £10.

If Noel produced 100 units his total cost would be:

- £10,010.
- → £11,000.
- £11,100.
- £1,000.

Total cost at 100 units production = (£10,000) + (100 units × £10) = £11,000

References

Multiple Choice Difficulty: Basic

5.

value:
3.00 points

Noel Stewart bought some materials 2 years ago for £300. These materials have simply been left in inventory as they were not needed. A new customer offers to buy a product that uses these materials. The conversion cost is £500 and the customer has offered to pay £650 for the product. Noel decides to accept the order.

In this decision, Noel would consider the sunk cost to be:

- £500.
- £650.
- £600.
- → £300.

A sunk cost is a cost that has already been incurred and that cannot be changed by any decision made now or in the future. Sunk cost would be £300 worth of materials already purchased 2 years back.

References

Multiple Choice Difficulty: Basic

6.

value:
3.00 points

Morton Company's manufacturing costs last year were as follows:

Direct materials	£300,000
Direct labour	400,000
Manufacturing overhead:	
Variable	80,000
Fixed	50,000

Conversion cost was:

- £400,000.
- £480,000.
- → £530,000.
- £830,000.

Direct labour (a)	£400,000
Manufacturing overhead:	
Variable (b)	80,000
Fixed (c)	50,000
Conversion cost (a + b + c)	£530,000

References

Multiple Choice Difficulty: Basic

7.

value:
3.00 points

Data for Morton Co:

Direct materials	£300,000
Direct labour	400,000
Manufacturing overhead:	
Variable	80,000
Fixed	50,000

Prime cost was:

- £300,000.
- £380,000.
- → £700,000.
- £830,000.

Direct materials (a)	£300,000
Direct labour (b)	400,000
Prime cost (a + b)	£700,000

References

Multiple Choice Difficulty: Intermediate

8.

value:
3.00 points

At a sales volume of 40,000 units, Lonnie Company's total fixed costs are £40,000 and total variable costs are £60,000.

The relevant range is 30,000 to 50,000 units.

If Lonnie were to sell 42,000 units, the total expected cost would be:

- £105,000.
- £100,000.
- → £103,000.
- £102,000.

Variable cost per unit (£60,000/40,000 units)	£1.50
Variable cost of 42,000 units (a)	63,000
Fixed cost (b)	40,000
Total expected cost (a + b)	£103,000

References

Multiple Choice Difficulty: Intermediate

9.

value:
3.00 points

The following costs were incurred in May:

Direct materials	£41,000
Direct labour	£13,000
Manufacturing overhead	£46,000
Selling expenses	£18,000
Administrative expenses	£15,000

Conversion costs during the month totalled:

- £54,000.
- £133,000.
- → £59,000.
- £87,000.

Direct labour (a)	£13,000
Manufacturing overhead (b)	46,000
Conversion cost (a + b)	£59,000

References

Multiple Choice Difficulty: Basic

10.

value:
3.00 points

Gable Inc. is a merchandising company. Last month, the company's merchandise purchases totalled £86,000. The company's beginning merchandise inventory was £15,000 and its ending merchandise inventory was £11,000. What was the company's cost of goods sold for the month?

- £86,000
- £112,000
- £82,000
- → £90,000

Beginning merchandise inventory (a)	£15,000
Ending merchandise inventory (b)	11,000
Merchandise purchase (c)	86,000
Cost of goods sold (a + c – b)	£90,000

References

Multiple Choice Difficulty: Basic

11.

value:
10.00 points

Shoe Fits Proprietary Limited is a small family business that manufactures shoes and sells them to small retailers. The following are costs incurred by Shoe Fits in the last month:

	Rand
Leather purchased	8,000
Leather used in shoe production	7,500
Wages paid to workers (80% of workers works in the factory and 20% in the administration building)	5,500
Shoe laces purchased	280
Shoe laces used in shoe production	200
Glue used in the manufacturing of shoes	150
Insurance paid (75% for insuring the factory, 25% for insuring the administration building)	800
Advertising and marketing expenses paid	950

Required:
Match the Rand amount to the correct description in the column below:

Explanation:

Rand amount	Description
580 [(R8,000 − R7,500) + (R280 − R200)]	Total inventory closing balance
7,700 [R7,500 + R200]	Total inventory transferred to Work in Progress
150 [Only glue]	Manufacturing overhead transferred to Work in Progress
4,400 [5,500 × 80%]	Total labour costs transferred to Work in Progress
2,250 [(5,500 × 20%) + (R800 × 25%) + R950]	Total amount to be e×pensed immediately
12,850 [R7,500 + (R5,500 × 80%) + R200 + R150 + (R800 × 75%)]	Total amount transferred to finished goods

References

Worksheet Difficulty: Intermediate

12.

value:
10.00 points

Plastics Co. is a newly established company that manufactures and sells water bottles in the drought threatening Western Cape region of South Africa. The demand for water bottles has increased drastically over the last couple of months. Water bottles are manufactured by a mixture of polymer powder that is melted and cooled down in manufacturing moulds. Labour is limited to managing the manufacturing machine in which the moulds are a part of.

Required:

1.	The polymer powder will be classified by Plastics Co. as	direct materials
2.	Labour costs will be classified by Plastics Co. as	indirect labour
3.	The electricity used to operate the manufacturing machine and the rent of the factory will be classified by Plastics Co. as	manufacturing overhead
4.	The cost to deliver the water bottles to clients will be classified by Plastics Co. as	non-manufacturing costs

Explanation:

1. Since polymer powder is a main component of the plastic bottles, it is classified as a direct material cost.

2. Labour costs will be classified by Plastics Co as indirect labour as it can be traced only at great cost and inconvenience to the manufacturing of water bottles.

3. Since the electricity is part of enabling the manufacturing machine to operate, but the usage cannot directly be allocated to a single water bottle, it will be classified as a manufacturing overhead cost.

4. The cost to deliver products is not a cost needed to manufacture the product, but rather a cost that is incurred after the product has been completed. It will therefore be classified as a non-manufacturing cost.

References

Worksheet Difficulty: Basic