1.

Award: **3.00 points** Problems? Adjust credit for all students.

Smith Company's variable expenses are 60% of sales. A £1,200 increase in the company's fixed expenses will increase the break-even point in sales by £3,000.

→ ○ True

○ False

An increase in a company's fixed expenses will increase the break-even point in sales by the percentage of CM ratio. In the given case, CM Ratio = 100 - 60 = 40%. Therefore, an increase in fixed expense by £1,200 will increase break-even point in sales by £3,000 (1,200/40%).

References

True / False Difficulty: Intermediate

2.

Award: **3.00 points** Problems? Adjust credit for all students.

Zero-based budgeting requires managers to justify all costs of programs as if these programs were being proposed for the first time.

→ ○ True

○ False

Under a zero-based budget, managers are required to justify all budgeted expenditures, not just changes in the budget from the previous year. The baseline is zero rather than last year's budget.

References

True / False Difficulty: Basic

3. Award: **3.00 points** Problems? Adjust credit for all students.

Annika Company uses activity-based costing. The company has two products: A and B. The annual production and sales of Product A is 4,000 units and of Product B is 1,000 units. There are three activity cost pools, with estimated total cost and expected activity as follows:

	Estimated	Expected Activity		
Activity Cost Pool	Cost	Product A	Product B	Total
Activity 1	£18,000	700	300	1,000
Activity 2	£24,000	500	100	600
Activity 3	£60,000	800	400	1,200

The cost per unit of Product A under activity-based costing is closest to:

- £10.00.
- £17.00.
- £20.40.
- → £18.15.

Calculation of cost per unit of Product A:

Activity 1 [(700/1,000) × £18,000]	£12,600
Activity 2 [(500/600) × £24,000]	20,000
Activity 3 [(800/1,200) × £60,000]	40,000
Total cost	£72,600
Cost per unit (£72,600/4,000 units)	£18.15

References

Multiple Choice Difficulty: Intermediate

4.

Award: **3.00 points** Problems? Adjust credit for all students.

Leeds Electronics, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price	£370
Units in beginning inventory	0
Units produced	4,500
Units sold	4,200
Units in ending inventory	300
Variable costs per unit:	
Direct materials	£124
Direct labour	134
Variable manufacturing overhead	11
Variable selling and administrative	15
Fixed costs:	
Fixed manufacturing overhead	£217,500
Fixed selling and administrative	115,200

The management accountant has discovered an error in last month's accounts. The fixed manufacturing overhead should have been stated at £230,000.

What is the operating profit for the month under absorption costing if the fixed manufacturing overhead is £230,000?

- £23,333
- → £31,333
- (£0)
- £18,500

Total gross margin = 4,200 × (£370 - £124 - £134 - £11) - (£230,000/4,500) = £209,533. After deducting selling and administrative expenses of £178,200 (£115,200 + (£15 × 4,200)), we have a operating profit of £31,333.

References

Multiple Choice

Difficulty: Intermediate

5. Award: **3.00 points** Problems? Adjust credit for all students.

Johansen Company uses a predetermined overhead rate based on direct Labour hours to apply manufacturing overhead to jobs. The company has provided the following estimated costs for the next year:

Direct materials	£6,000
Direct Labour	20,000
Rent on factory building	15,000
Sales salaries	25,000
Depreciation on factory equipment	8,000
Indirect Labour	12,000
Production supervisor's salary	15,000

Johansen estimates that 20,000 direct Labour hours will be worked during the year. The predetermined overhead rate per hour will be:

→ £2.50.

£3.75.

£5.05.

£3.50.

Estimated direct labour hours	20,000 hours
Rent on factory building (a)	£15,000
Depreciation on factory equipment (b)	8,000
Indirect Labour (c)	12,000
Production supervisor's salary (d)	15,000
Estimated manufacturing overhead: (a + b + c +d)	£50,000

Predetermined overhead rate per hour = (£50,000/20,000 hours) = £2.50

References

Multiple Choice Difficulty: Intermediate

6. Award: **3.00 points** Problems? Adjust credit for all students.

Shoe fits Proprietary Limited is a small family business that repairs and polishes shoes at all local and international airports in South Africa. The company has been in business for many years and ownership is transferred within the family from generation to generation. The role of management accounting within this firm has changed over the many years that they have been in business.

Required:

1.	Shoe fits proprietary limited has been in business for years and for many decades their management				
	accounting functions were aimed at accurately compiling financial reports and delivering them on time.				
	This statement is	true			
2.	In recent years new economic forces have led to		many		important innovations in
	management accounting				

Explanation:

1. The statement is true, for many decades, management accounting was aimed at accurately compiling financial reports and delivering them on time.

2. In recent years new economic forces have led to many important innovations in management accounting.

References

Worksheet Difficulty: Basic

7.

Award: **3.00 points** Problems? Adjust credit for all students.

Bottles for Africa has been manufacturing plastic bottles for the last couple of years. The company uses a process costing system under the weighted average method to calculate equivalent units and costs per unit. Materials are added at the beginning of the process whilst conversion costs are allocated evenly over the process. The following information is available for the past month:

Work-in-progress opening balance (500 bottles 70% complete)	R7,750
Direct materials	R2,500
Conversion costs	R5,250
Types of costs incurred:	
Direct materials opening balance	R500
Direct materials purchased	R50,000
Direct materials closing balance	R1,000
Conversion cost incurred	R580,000
Conversion cost issued to production	R600,000
Number of bottles completed	25,000
Work-in-progress closing balance (750 bottles 50% complete)	?

Required:

1. Calculate the equivalent number of units completed for both direct materials and conversion cost.

Direct materials	25,750	units
Conversion costs	25,375	units

2. Calculate the direct material and conversion cost per equivalent unit. **(Round your answers to 2 decimal places.)**

Direct materials	R	2.02	per equivalent unit
Conversion cost	R	23.85	per equivalent unit

3. Calculate the closing balance of Work-in-progress. **(Round your answer to 2 decimal places.)**

Work-in-progress	R	10,458.75

Explanation:

1. Direct materials: 25,000 + 750 = 25,750 units
   Conversion costs: [25,000 + (750 × 50%) = 25,375

2. Direct materials: [(R500 + R50,000 – R1,000) + R2,500] / 25,750 = R2.02
   Conversion cost: [R600,000 + R5,250] / 25,375 = R23.85

3. (750 × R2.02) + (750 × 50% × R23.85) = R1,515 + R8,943.75 = R10,458.75

References

Worksheet Difficulty: Intermediate

8.

Award: **3.00 points** Problems? [Adjust credit] for all students.

Contribution margin is the amount remaining after

- ○ fixed expenses have been deducted from variable expenses.
- ○ cost of goods sold has been deducted from sales revenues.
- → ○ variable expenses have been deducted from sales revenue.
- ○ fixed expenses have been deducted from sales revenue.

Contribution margin is calculated the excess of sales over variable expenses.

References

Multiple Choice Difficulty: Basic

9. Award: **3.00 points** Problems? Adjust credit for all students.

Process costing would be used by companies producing the following items: bricks, bolts, pharmaceutical items, natural gas, and electricity.

→ ○ True

○ False

Process costing would be best suited for production of a large quantity of a homogeneous product. So companies producing the following items: bricks, bolts, pharmaceutical items, natural gas, and electricity should use process costing.

References

True / False Difficulty: Basic

10.

Award: **3.00 points** Problems? Adjust credit for all students.

Elbert Company manufactures a product and sells it for £90 per unit. The product has a contribution margin ratio of 35%. The company's fixed expenses are £46,800. If Elbert desires a monthly target operating profit equal to 15% of sales, sales will have to be (rounded):

- 1,040 units.
- 1,486 units.
- 3,467 units.
- → 2,600 units.

Contribution margin	35% of sales
Net operating profit margin	15% of sales
Fixed expenses margin (35% – 15%)	20% of sales
Given, fixed expenses	£46,800
Therefore, sales pounds (46,800 ÷ 20%)	£234,000
Sales units (234,000 ÷ 90)	2,600 units

References

Multiple Choice Difficulty: Intermediate

11.

Award: **3.00 points** Problems? Adjust credit for all students.

Prestwich Company has budgeted production for next year as follows

Quarter	First	Second	Third	Fourth
Production in units	60,000	80,000	90,000	70,000

Two pounds of material A are required for each unit produced. The company has a policy of maintaining a inventory of material A on hand at the end of each quarter equal to 25% of the next quarter's production needs for material A. A total of 30,000 pounds of material A are on hand to start the year. Budgeted purchases of material A for the second quarter would be:

- 205,000 pounds.
- 200,000 pounds.
- 82,500 pounds.
- → 165,000 pounds.

Material purchases for second quarter production (80,000 × 2 × 75%)	120,000
Material purchases for maintaining inventory (90,000 × 2 × 25%)	45,000
Budgeted purchases of material A	165,000

References

Multiple Choice Difficulty: Intermediate

12.

Award: **3.00 points** Problems? Adjust credit for all students.

The master budget is a network consisting of many separate budgets that are interdependent.

→ ◯ True

◯ False

The master budget consists of a number of separate but interdependent budgets that formally lay out the company's sales, production and financial goals.

References

True / False Difficulty: Basic

13.

Award: **3.00 points** Problems? Adjust credit for all students.

Scheney Company uses the weighted-average method in its process costing system. The company's work in process inventory on March 31 consisted of 20,000 units. The units in the ending work in process inventory were 100% complete with respect to materials and 70% complete with respect to labour and overhead. If the cost per equivalent unit for August was £2.50 for materials and £4.75 for labour and overhead, the total cost in the March 31 work in process inventory was:

- £101,500
- → £116,500
- £145,000
- £78,500

	Material	Labour and overhead
Equivalent units (20,000 units × 100%), (20,000 units × 70%)	20,000	14,000
Cost per equivalent unit	£2.50	£4.75
Cost (20,000 units × £2.50), (20,000 units × £4.75)	£50,000	£66,500
Total cost (£50,000 + £66,500)	£116,500	

References

Multiple Choice Difficulty: Intermediate

14.

Award: **3.00 points** Problems? Adjust credit for all students.

Fruits Proprietary Limited has been selling fruit to local retailers for many years. Recently, global competition in South Africa has expanded drastically, resulting in a lot of fruit imports and increased competition in the fruit industry in which the company operates. The company is in the process of finding a cost management system that will reduce storing costs.

Required:

1.	A	Just in time (JIT)		system can assist Fruit Proprietary Limited in reducing storing costs
	by	decreasing		the amount of inventory kept at any given time.

2. Which of the following are examples of modern management accounting approaches that enhance quality management, inventory management and managing constraints? **(You may select more than one answer. Single click the box with the question mark to produce a check mark for a correct answer and double click the box with the question mark to empty the box for a wrong answer.)**

- Standard costing system
- Just-in-time (JIT)
- Total quality management (TQM)
- Process-re-engineering
- Absorption costing system
- Process costing system

Explanation:

1. A JIT system reduces the amount of inventory kept by only ordering inventory items once they are needed.

2. Since the early 1980's, many companies have gone through several waves of improvement programmes, starting with just-in-time (JIT) and passing on to total quality management (TQM), process re-engineering, and various other management programmes often summarized by the term lean production.

References

Worksheet Difficulty: Intermediate

15.

Award: **3.00 points** Problems? Adjust credit for all students.

The break-even point in units is calculated using

- variable expenses and the contribution margin ratio.
- variable expenses and the unit contribution margin.
- → fixed expenses and the unit contribution margin.
- fixed expenses and the contribution margin ratio.

Break-even point in units sold = Fixed expenses/Unit contribution margin

References

Multiple Choice Difficulty: Intermediate

16.

Award: **3.00 points** Problems? Adjust credit for all students.

The cost of a completed job, in a job-order costing system, typically consists of the actual materials cost of the job, the actual labour cost of the job, and the actual amount of manufacturing overhead cost of the job.

- True
- → False

The cost of a completed job consists of the actual materials cost of the job, the actual labour cost of the job, and the overhead cost applied to the job.

References

True / False Difficulty: Basic

17.

Award: **3.00 points** Problems? Adjust credit for all students.

Under the weighted-average method, the cost of materials in the beginning work in process inventory is not used in the computation of the cost per equivalent unit for materials.

- True
- → False

Under the weighted-average method, the cost of materials in the beginning work in process inventory is used in the computation of the cost per equivalent unit for materials.

References

True / False Difficulty: Basic

18.

Award: **3.00 points** Problems? Adjust credit for all students.

Farris Company, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price	£78
Units in beginning inventory	0
Units produced	8,800
Units sold	8,700
Units in ending inventory	100
Variable costs per unit:	
Direct materials	£18
Direct labour	10
Variable manufacturing overhead	4
Variable selling and administrative	5
Fixed costs:	
Fixed manufacturing overhead	£255,200
Fixed selling and administrative	87,000

What is the unit product cost for the month under variable costing?

- £37
- £66
- £61
- → £32

Under variable costing, only those costs of production that vary with output are treated as product costs. This would generally include direct materials, direct labour and the variable portion of manufacturing overhead. The unit product cost for the month is £32 (£18 + £10 + £4).

References

Multiple Choice Difficulty: Basic

Managerial Accounting
Semester 2 (2020) 1

Final Individual Assignment...

(54 questions, 160.00 points)

19. Award: **3.00 points** Problems? Adjust credit for all students.

Casual Clothing is a company that makes clothing from recycled material and distributes is to poor communities at affordable prices. The following actual costs incurred are available for the company for the month of March:

	Rand
Total cost for the rental of 5 delivery vehicles	25,000
Total fuel cost (travelled 6,780km in total)	81,360

Other overhead costs for the months of February and March were as follows:

	December	January	February	March
Total other overhead costs	R25,000	R35,000	R31,000	R60,000
Number of clothing pieces made	5,000	10,000	8,000	20,000

Required:

1.	The rental cost of the 5 delivery vehicles will be seen as a	fixed	cost that will be	variable	per unit but	c
	in total with a change in the number of clothing items made.					
2.	The total fuel cost will be seen as a	variable	cost that will be	constant	per kilometer but	variable	ir
	a change in the number of kilometers travelled.						
3.	The fixed portion of the other overhead costs for the manufacturing of 6,000 units is:		R	15,000			
4.	The cost to deliver the manufactured water tank to the premises of clients will be classified by Go-Go as			non-manufacturing costs		.	

Explanation:

1. The rental cost of the 5 delivery vehicles will be seen as a fixed cost that will be variable per unit but fixed in total with a change in the number of clothing items made.

2. The total fuel cost will be seen as a variable cost that will be constant per kilometer but variable in total with a change in the number of kilometers travelled.

3. [(R35,000 − R25,000) ÷ (10,000 − 5,000)] = R2 variable cost per unit. Note: The figures of March cannot be used to calculate the fixed or variable portion, as March falls out of the relevant range.
Fixed cost: R35,000 − (R2 × 10,000) = R15,000 OR R25,000 − (R2 × 5,000) OR R31,000 − (R2 × 8,000) = R15,000

References

Worksheet Difficulty: Basic

20.

Award: **3.00 points** Problems? Adjust credit for all students.

Assuming no change in the level of fixed expenses, the addition to a company's sales mix of a product with a low contribution margin that increases the total contribution margin could also increase the break-even point expressed in pounds.

→ ○ True

○ False

If a product with low contribution margin is added to a company's sales mix, the contribution margin ratio will decrease. Therefore, the break-even sales in pounds will also decrease.

References

True / False Difficulty: Intermediate

21.

Award: **3.00 points** Problems? Adjust credit for all students.

The cost of beginning inventory under the weighted-average method is:

- ignored in determining the costs per equivalent unit for a given period.
- → added to the current period costs in determining costs per equivalent unit for a given period.
- not shown on the production report.
- considered separately from costs incurred during the current period.

The cost of beginning inventory under the weighted-average method is added to the current period costs in determining costs per equivalent unit for a given period.

References

Multiple Choice Difficulty: Intermediate

22. Award: **3.00 points** Problems? Adjust credit for all students.

Todco planned to produce 3,000 units of its single product, Teragram, during November. The standard specifications for one unit of Teragram include six pounds of material at £0.30 per pound. Actual production in November was 3,100 units of Teragram. The accountant computed a favourable materials purchase price variance of £380 and an unfavourable materials quantity variance of £120. Based on these variances, one could conclude that

- more materials were used than were purchased.
- the actual usage of materials was less than the standard allowed.
- more materials were purchased than were used.
- → the actual cost of materials was less than the standard cost.

Materials price variance = AQ(AP − SP).
Therefore, a favourable materials purchase price variance can result when the actual cost of materials is less than the standard cost.

References

Multiple Choice Difficulty: Basic

23.

Award: **3.00 points** Problems? Adjust credit for all students.

Matrix hair is a hair salon situated in a well-known shopping mall in Cape Town. The hair salon has a contract with a cleaning company that cleans the salon on a daily basis. The cost-structure of the total cleaning cost for a specific month consists of a fixed monthly fee and an additional cost per hour worked by cleaning staff. The fixed monthly fee charged by the cleaning company is constant between zero and 70 hours per month, but increases to a higher amount when more than 70 hours are worked in a specific month.

The following schedule lists the total costs and hours cleaning staff worked at the salon during the past 12 months:

	Rand	Hours worked
January	6,080	72
February	5,520	68
March	5,475	65
April	5,400	60
May	5,535	69
June	6,095	73
July	6,110	74
August	5,460	64
September	6,170	78
October	5,490	66
November	5,490	66
December	6,080	72

Required:
Complete the following table using the High-low method:

1.	Variable cost per hour worked by cleaning staff	R	15
2.	Total fixed cost for a month in which less than 70 hours are worked by cleaning staff	R	4,500
3.	Total fixed cost for a month in which more than 70 hours are worked by cleaning staff	R	5,000

Explanation:

1. (R5,535 − R5,400) ÷ (69 − 60) = R15 per hour

2. R5,400 − (R15 × 60) = R4,500

3. R6,170 − (R15 × 78) = R5,000

References

Worksheet Difficulty: Basic

24.

Award: **3.00 points** Problems? Adjust credit for all students.

Variable costing is not permitted for external reporting, but it is fully acceptable as a costing method for income tax purposes.

- True
- → False

Variable costing can neither be used for external reporting nor is it acceptable as a costing method for income tax expense. Absorption costing is the generally accepted method for preparing mandatory external financial reports and income tax returns.

References

True / False Difficulty: Basic

25.

Award: **3.00 points** Problems? Adjust credit for all students.

Which of the following would probably be the least appropriate allocation base for allocating overhead in a highly automated manufacturer of specialty valves?

- Machine-hours
- → Direct Labour-hours
- Machine setups
- Power consumption

Direct labour-hours would probably be the least appropriate allocation base for allocating overhead in a highly automated manufacturer of specialty valves as the sophisticated automated equipment has taken over functions that used to be performed by direct labour.

References

Multiple Choice Difficulty: Basic

26. Award: **3.00 points** Problems? Adjust credit for all students.

Compute the amount of direct materials used during August if £25,000 of raw materials were purchased during the month and the inventories were as follows:

	Balance	Balance
Inventories	**August 1**	**August 31**
Raw materials	£ 5,000	£ 3,000
Work in process	13,000	16,000
Finished goods	25,000	27,000

- £19,000
- £16,000
- → £27,000
- £23,000

Opening raw material	£5,000
Add: purchases	25,000
Less: Closing raw material	3,000
Raw material used	27,000

References

Multiple Choice Difficulty: Basic

27.

Award: **3.00 points** Problems? Adjust credit for all students.

Kelson Company applies overhead to jobs on the basis of 60% of direct labour cost. If Job 201 shows £27,000 of manufacturing overhead applied, the direct labour cost on the job was:

- £27,000.
- £16,200.
- → £45,000.
- £37,800.

Manufacturing overhead applied	£27,000
Overhead	60% of direct labour hours
Direct labour cost (£27,000/60%)	£45,000

References

Multiple Choice Difficulty: Intermediate

28. Award: **3.00 points** Problems? Adjust credit for all students.

On September 1, the estimates for the month were:

Manufacturing overhead	£17,000
Direct Labour hours	13,600
During September, the actual results were:	
Manufacturing overhead	£18,500
Direct Labour hours	12,000

Malcolm Company uses a predetermined overhead rate based on direct labour hours to apply manufacturing overhead to jobs.

The cost records for September will show:

- underapplied overhead of £1,500.
- → underapplied overhead of £3,500.
- overapplied overhead of £1,500.
- overapplied overhead of £3,500.

Actual manufacturing overhead	£18,500
Estimated manufacturing overhead	17,000
Predetermined overhead rate (£17,000/£13,600 hours)	1.25
Applied overhead (£1.25 × 12,000 hours)	15,000
Underapplied overhead (£18,500 − £15,000)	£3,500

References

Multiple Choice Difficulty: Basic

29.

Award: **3.00 points** Problems? Adjust credit for all students.

The larger the contribution margin ratio, the smaller the amount of sales required to cover a given amount of fixed expenses.

→ ○ True

○ False

The break-even sales in pounds can be calculated as fixed expenses divided by the contribution margin ratio. Higher the contribution margin ratio, lower will be the sales required to break even.

References

True / False Difficulty: Basic

30. Award: **3.00 points** Problems? Adjust credit for all students.

Columbia Company's variable costing statement of comprehensive income for November appears below:

Columbia Company		
Statement of Comprehensive Income		
For the month ended November 30		
Sales (40,000) units × £30 per unit		£1,200,000
Variable expenses:		
Variable cost of goods sold:		
Beginning inventory (8,000 units)	£144,000	
Add: Variable cost of goods manufactured.	630,000	
Good available for Sale.	774,000	
Less: Ending Inventory (3,000 units)	54,000	
Variable cost of goods sold	720,000	
Variable selling expenses	160,000	
Contribution margin		880,000
Fixed expenses:		320,000
Manufacturing	140,000	
Selling and admin	35,000	
Total fixed expenses		175,000
Operating profit		**£145,000**

The pound value of the company's inventory on November 30 under the absorption costing method would be:

→ ○ £66,000.

○ £81,000.

○ £54,000.

○ £78,000.

Number of units produced during the year = Units sold + Ending inventory - Beginning inventory = 40,000 units + 3,000 units - 8,000 units = 35,000 units Variable cost of goods sold per unit is £18 (£720,000/40,000). Fixed manufacturing overhead cost per unit is £4 (£140,000/35,000). The total value of inventory on November 30 under the absorption costing method would be £66,000 (3,000 units × (£18 + £4)).

References

Multiple Choice Difficulty: Intermediate

31.

Award: **3.00 points** Problems? Adjust credit for all students.

Moon Company sells its product for £6 a unit. Next year, fixed expenses are expected to be £200,000 and variable expenses are estimated at £4 a unit. How many units must Moon sell to generate operating profit of £40,000?

- 60,000 units
- → 120,000 units
- 100,000 units
- 50,000 units

Unit contribution margin (£6 – £4)	2
Units to be sold to attain the target profit [(£200,000 + £40,000) ÷ 2)	£120,000

References

Multiple Choice Difficulty: Intermediate

32.

Award: **3.00 points** Problems? Adjust credit for all students.

In a job-order cost system, the application of manufacturing overhead usually would be recorded as a debit to:

- Cost of Goods Sold.
- Manufacturing Overhead.
- → Work in Progress.
- Finished Goods Inventory.

In a job-order cost system, the application of manufacturing overhead usually would be recorded as a debit to Work in Progress.

References

Multiple Choice Difficulty: Basic

33. Award: **3.00 points** Problems? Adjust credit for all students.

The Donaldson Company uses a job-order cost system. The following data were recorded for July:

	July 1	Added During June	
	Work in Process	Direct	Direct
Job Number	Inventory	Materials	Labour
475	£1,500	£ 500	£ 300
476	£1,000	£ 700	£900
477	£900	£1,000	£1,500
478	£ 700	£1,200	£2,000

Overhead is applied to jobs at the rate of 80 per cent of direct materials cost. Jobs 475, 477, and 478 were completed during July and transferred to finished goods. Jobs 475 and 478 have been delivered to the customer. Donaldson's Work in Process Inventory balance on July 31 was:

→ ○ £3,160.

○ £7,280.

○ £2,600.

○ £3,320.

Work in process (Job No.476) (a)	£1,000
Direct material (b)	700
Direct labour (c)	900
Overhead (d)	560
Work in Process Inventory for Job No. 476:	£3,160

References

Multiple Choice Difficulty: Intermediate

34.

Award: **3.00 points** Problems? Adjust credit for all students.

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

35. Award: **3.00 points** Problems? Adjust credit for all students.

Fruits Proprietary Limited has been buying and selling fruit to local retailers for many years. Fruit is purchased from different farms in and around Ceres, and then distributed to retailers.

Required:

1.	The total cost of fruit is a	direct	cost which is	variable	
	to an increase in fruit purchased.				

2. The total cost to deliver fruit to retailers is______

- ○ a direct cost that is variable per kilometer driven.
- ○ an indirect cost that is variable per unit of fruit purchased.
- ○ a direct cost that is fixed per unit of fruit purchased.
- ◉ an indirect cost that is variable per kilometer driven.

3.	The total cost to deliver fruit purchased from farmers to the warehouse is a/an			direct	
	cost that is	variable	per	kilometer driven	

4. The total rental cost of the warehouse in which fruit is stored is ______

- ○ an indirect cost that is variable to an increase in the number of fruit purchased.
- ○ a direct cost that is variable to an increase in the number of fruit purchased.
- ○ a direct cost that is fixed to an increase in the number of fruit purchased.
- ◉ an indirect cost that is fixed to an increase in the number of fruit purchased.

5.	The license cost for vehicles used to deliver fruit to retailers will be classified as a			fixed	
	cost per vehicle, but a	variable	cost for the company.		

Explanation:

1. The purchase cost of fruit will be seen as a direct cost since it is the cost to get the product before it can be sold. It is also a variable cost since the total cost of fruit will increase with an increase in the number of fruit purchased.

2. The cost to deliver fruit to retailers is not a cost that is incurred to get the product in a sellable form, but rather to get the finished product to clients. It is therefore seen as an indirect cost. It is also seen as a variable cost per kilometer driven, since the further away the client, the more the cost will be to deliver due to possible fuel prices.

3. The cost to deliver fruit from fruit farmers is seen as a cost to get the products to your store before it is in a position to be sellable. It will therefore be seen as a direct cost. It is variable per kilometer driven since the total cost will increase for every kilometer driven due to possible fuel prices.

4. The cost to rent a factory is seen as an indirect cost, since it is not directly attributable to fruit items. It is also fixed, no matter the number of fruit that is purchased.

5. Since each vehicle can only have once licence, the licence cost for that vehicle will be fixed, no matter the usage of the vehicle. It is however seen as a variable cost for the company, since the more vehicles the company own, the more its licence fees will be. Licence costs are thus variable for the number of vehicles owned from the company's perspective.

References

Worksheet	Difficulty: Intermediate

36. Award: **3.00 points** Problems? Adjust credit for all students.

The following materials standards have been established for a particular product:

Standard quantity per unit of output	5.3 meters
Standard price	£17.20 per meter

The following data pertain to operations concerning the product for the last month:

Actual materials purchased	8,100 meters
Actual cost of materials purchased	£141,345
Actual materials used in production	7,600 meters
Actual output	1,400 units

What is the materials price variance for the month?

- £3,141 U
- £8,600 U
- → £2,025 U
- £8,725 U

Materials price variance = AQ(AP − SP) = 8,100 meters × [(£141,345/8,100 meters) − £17.20] = £2,025 unfavourable

References

Multiple Choice Difficulty: Intermediate

37.

Award: **3.00 points** Problems? Adjust credit for all students.

Equivalent units for a process costing system using the weighted-average method would be equal to:

→ ◯ units completed during the period plus equivalent units in the ending work in process inventory.

◯ units completed during the period and transferred out.

◯ units completed during the period less equivalent units in the beginning inventory, plus equivalent units in the ending work in process inventory.

◯ units started and completed during the period plus equivalent units in the ending work in process inventory.

In the weighted-average method, the equivalent units would be equal to units completed during the period plus equivalent units in the ending work in process inventory.

References

Multiple Choice Difficulty: Basic

38.

Award: **3.00 points** Problems? Adjust credit for all students.

Shown below is the sales forecast for Cooper Inc. for the first four months of the coming year.

	Jan	Feb	Mar	Apr
Cash sales	£ 15,000	£ 24,000	£ 18,000	£ 14,000
Credit sales	£100,000	£120,000	£ 90,000	£ 70,000

On average, 50% of credit sales are paid for in the month of the sale, 30% in the month following sale, and the remainder is paid two months after the month of the sale. Assuming there are no irrecoverable receivables, the expected cash inflow in March is:

- £138,000.
- £108,000.
- £122,000.
- → £119,000.

Cash sales	£ 18,000
Budgeted cash receipts for credit sales [(£100,000 × 20%) + (£120,000 × 30%) + (£90,000 × 50%)]	101,000
Budgeted total cash receipts for March	£119,000

References

Multiple Choice Difficulty: Intermediate

39. Award: **3.00 points** Problems? Adjust credit for all students.

The impact on operating profit of a given pound change in sales can be computed by applying the contribution margin ratio to the pound change in sales.
If fixed costs remain constant, change in operating profit = CM ratio × Change in sales

→ True

False

Change in contribution margin = CM ratio × Change in sales
If fixed costs remain constant, change in operating profit = CM ratio × Change in sales

References

True / False Difficulty: Intermediate

40.

Award: **3.00 points** Problems? Adjust credit for all students.

The contribution margin ratio is 25% for Grain Company and the break-even point in sales is £200,000. If the company's target operating profit is £60,000, sales would have to be:

- £280,000.
- → £440,000.
- £240,000.
- £260,000.

Fixed expenses (£200,000 × 25%)	£50,000
Sales required to attain target profit [(£50,000 + £60,000) ÷ 25%]	£440,000

References

Multiple Choice Difficulty: Intermediate

41.

Award: **1.00 point** Problems? Adjust credit for all students.

Mark Company currently sells a video recorder with a selling price of £300 per unit. The variable expense per unit is £175 and fixed expenses are £100,000. If the company reduces variable expenses by £20 per unit and increases the fixed expenses by £10,000, the break-even point will increase.

- True
- → False

Break-even point in units [£100,000 ÷ (£300 – £175)]	800 units
Revised break-even point in units [(£100,000 + £10,000) ÷ £300 – (£175 – £20)]	758 units

The break-even point will decrease in such a scenario.

References

True / False Difficulty: Intermediate

42.

Award: **3.00 points** Problems? Adjust credit for all students.

The materials price variance should be computed:

- when materials are used in production.
- → when materials are purchased.
- based upon the amount of materials used in production when only a portion of materials purchased is actually used.
- based upon the difference between the actual quantity of inputs and the standard quantity allowed for output times the standard price.

The materials price variance should be computed when materials are purchased.

References

Multiple Choice Difficulty: Basic

43.

Award: **3.00 points** Problems? Adjust credit for all students.

Nick Company has two products: A and B. The company uses activity-based costing. The estimated total cost and expected activity for each of the company's three activity cost pools are as follows:

	Estimated	Expected Activity		
Activity Cost Pool	Cost	Product A	Product B	Total
Activity 1	£32,600	700	300	1,000
Activity 2	£17,600	600	200	800
Activity 3	£52,500	400	100	500

The activity rate under the activity-based costing system for Activity 3 is closest to:

→ ○ £105.00.

○ £525.00.

○ £44.65.

○ £205.00.

Activity rate = Activity rate = Total estimated cost/Total activity = £52,500/500 = £105.00

References

Multiple Choice Difficulty: Basic

44.

Award: **3.00 points** Problems? Adjust credit for all students.

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:

	Description
580	Total inventory closing balance
7,700	Total inventory transferred to Work in Progress
150	Manufacturing overhead transferred to Work in Progress
4,400	Total labour costs transferred to Work in Progress
2,250	Total amount to be expensed immediately
12,850	Total amount transferred to finished goods

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 expensed immediately
12,850 [R7,500 + (R5,500 × 80%) + R200 + R150 + (R800 × 75%)]	Total amount transferred to finished goods

References

Worksheet Difficulty: Intermediate

45.

Award: **3.00 points** Problems? Adjust credit for all students.

The budgeted amount of raw materials to be purchased is determined by:

- adding the beginning inventory of raw materials to the raw materials needed to meet the production schedule and subtracting the desired ending inventory of raw materials.
- → adding the desired ending inventory of raw materials to the raw materials needed to meet the production schedule and subtracting the beginning inventory of raw materials.
- adding the desired ending inventory of raw materials to the raw materials needed to meet the production schedule.
- subtracting the beginning inventory of raw materials from the raw materials needed to meet the production schedule.

The budgeted amount of raw materials to be purchased is determined by adding the desired ending inventory of raw materials to the raw materials needed to meet the production schedule and subtracting the beginning inventory of raw materials.

References

Multiple Choice Difficulty: Basic

46.

Award: **3.00 points** Problems? Adjust credit for all students.

Columbia Company's variable costing statement of comprehensive income for November appears below:

Columbia Company		
Statement of Comprehensive Income		
For the month ended November 30		
Sales (40,000) units × £30 per unit		£1,200,000
Variable expenses:		
Variable cost of goods sold:		
Beginning inventory (8,000 units)	£144,000	
Add: Variable cost of goods manufactured.	630,000	
Good available for Sale.	774,000	
Less: Ending Inventory (3,000 units)	54,000	
Variable cost of goods sold	720,000	
Variable selling expenses	160,000	
Contribution margin		880,000
Fixed expenses:		320,000
Manufacturing	140,000	
Selling and admin	35,000	
Total fixed expenses		175,000
Operating profit		**£145,000**

Under absorption costing, for the month ended November 30 the company would report a:

→ ◯ £125,000 profit.

◯ £125,000 loss.

◯ £120,000 profit.

◯ £145,000 profit.

Number of units produced during the year is 35,000 (40,000 units + 3,000 units - 8,000 units).

Profit as per variable costing	£145,000
Less: Fixed overheads in ending inventory	20,000
((£140,000/35,000) × (8,000 units – 5,000 units))	
Profit as per absorption costing	£125,000

References

Multiple Choice Difficulty: Intermediate

47.

Award: **3.00 points** Problems? Adjust credit for all students.

Leeds Electronics, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price	£370
Units in beginning inventory	0
Units produced	4,500
Units sold	4,200
Units in ending inventory	300
Variable costs per unit:	
Direct materials	£124
Direct labour	134
Variable manufacturing overhead	11
Variable selling and administrative	15
Fixed costs:	
Fixed manufacturing overhead	£217,500
Fixed selling and administrative	115,200

What is the operating profit for the month under absorption costing?

- (£16,000)
- → £43,000
- £44,100
- £45,700

Sales (4,200 units × £370)		£1,554,000
Less cost of goods sold		
Beginning inventory	£0	
Add: cost of goods manufactured (4,500 units × £317.3333)	1,428,000	
Less: ending inventory (300 units × £317.3333)	95,200	
Cost of goods sold		1,332,800
Gross margin		221,200
Less: selling and administrative expenses		

(4,200 units × £15) + £115,200		178,200
Operating profit		£43,000

References

Multiple Choice Difficulty: Intermediate

48. Award: **3.00 points** Problems? Adjust credit for all students.

In a job order cost system, the indirect materials issued into the production usually are recorded as an increase in:

- Finished Goods Inventory.
- Work in Process Inventory.
- Raw Materials Inventory.
- → Manufacturing Overhead.

In a job order cost system, the indirect materials issued into the production, usually are recorded as an increase in Manufacturing Overhead.

References

Multiple Choice Difficulty: Basic

49. Award: **3.00 points** Problems? Adjust credit for all students.

Stay Company uses the weighted-average method in its process costing system. The company's ending work in process inventory consists of 8,000 units, 60% complete with respect to materials and 80% complete with respect to labour and overhead. If the total cost in this inventory is £200,000 and if the cost for materials is £16 per equivalent unit for the period, the cost of labour and overhead per equivalent unit of the production for the period must be:

→ ○ £19.25

○ £16.00

○ £25.67

○ £31.25

Cost of labour and overhead per equivalent unit:

Equivalent unit for labour and overhead (8,000 units × 80%)	6,400
Equivalent unit for material (8,000 units × 60%)	4,800
Total cost	£200,000
Cost of material per equivalent unit (£16 × 4,800 units)	76,800
Cost of labour and overhead per equivalent unit (£200,000 − £76,800)/6,400 units	£19.25

References

Multiple Choice Difficulty: Intermediate

50. Award: **3.00 points** Problems? Adjust credit for all students.

Farris Company, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price	£78
Units in beginning inventory	0
Units produced	8,800
Units sold	8,700
Units in ending inventory	100
Variable costs per unit:	
Direct materials	£18
Direct labour	10
Variable manufacturing overhead	4
Variable selling and administrative	5
Fixed costs:	
Fixed manufacturing overhead	£255,200
Fixed selling and administrative	87,000

What is the operating profit for the month under absorption costing?

→ ○ £17,400

○ £2,900

○ £14,500

○ £11,300

Total gross margin is £147,900 (8,700 × (£78 - £18 - £10 - £4 - (£255,200/8,800)). After deducting selling and administrative expenses of £130,500 (£87,000 + (£5 × 8,700)), we have a operating profit of £17,400.

References

Multiple Choice Difficulty: Intermediate

51.

Award: **3.00 points** Problems? Adjust credit for all students.

The Gasson Company uses the weighted-average method in its process costing system. The company's ending work in process inventory consists of 10,000 units, 100% complete with respect to materials and 70% complete with respect to labour and overhead. If the costs per equivalent unit are £4.50 for the materials and £2.00 for labour and overhead, the balance of the ending work in process inventory account would be:

→ ○ £59,000

○ £65,000

○ £44,500

○ £50,500

Balance of ending work in process:	
Equivalent units for material (10,000 units × 100%)	10,000
Equivalent units for labour and overhead (10,000 × 70%)	7,000
Material cost (a) (10,000 units × £4.50)	£45,000
Labour cost (b) (7,000 × £2.000)	14,000
Ending work in process (a + b)	£59,000

References

Multiple Choice Difficulty: Intermediate

52. Award: **3.00 points** Problems? Adjust credit for all students.

Frank manufactures wine barrels and supplies it to wine farms in the Stellenbosch and Franschoek area. Frank is considering the possibility of outsourcing the manufacturing of wine barrels to an outside party, rather than self-manufacturing. Currently, the following information is available:

Total manufacturing cost for the manufacturing of one wine barrel	R	450	per barrel
Number of wine barrels in inventory		152	
Rand value of wine barrels currently in inventory	R	68,400	
Current standing orders for new wine barrels not yet supplied to customers		280	wine barrels
Selling price per wine barrel	R	900	
Proposed cost for a wine barrel if supplied by the outsourcer	R	400	per barrel

Required:

1. What is the total differential cost of outsourcing wine barrels per wine barrel?

Differential cost	R	50

2. When supplying 280 wine barrels to customers, the R68,400 of barrels currently in inventory is seen as a/an ______ for purposes of deciding whether Frank should outsource.

- ○ decremental cost
- ◉ sunk cost
- ○ incremental cost
- ○ differential cost

3.	Should frank decide to sell the wine barrels in inventory to a friend for R750, instead of selling it to normal customers,					
	R	150	will be seen as a/an	opportunity cost		

Explanation:

1. By outsourcing the manufacturing of the wine barrel, the company will pay R400 instead of R450 when having to manufacture it themselves. The R50 difference is therefore seen as a differential cost.

2. Since the cost of the 280 wine barrels have already been made prior to making the decision to outsource, the cost will be seen as a sunk cost and not taken into account when making the decision to outsource.

3. The opportunity cost is R150 (R900 − R750), since Frank will lose out on the opportunity to sell to the same barrels at R900 when selling it to a friend for R750.

References

Worksheet Difficulty: Advanced

53.

Award: **3.00 points** Problems? Adjust credit for all students.

Under a job-order cost system, the Work in Progress account is debited with the cost of materials purchased.

- True
- → False

Under a job-order cost system, the Work in Progress account is debited with the cost of materials for specific jobs.

References

True / False Difficulty: Basic

54.

Award: **3.00 points** Problems? Adjust credit for all students.

Karvel Corporation uses a predetermined overhead rate based on machine-hours to apply manufacturing overhead to jobs. For the month of August, Karvel estimated total manufacturing overhead costs at £300,000 and total machine-hours at 75,000 hours. Actual results for the period were manufacturing overhead costs of £290,000 and 75,000 machine-hours. As a result, Karvel would have:

→ ○ applied more overhead to Work in Process than the actual amount of overhead cost for the year.

○ applied less overhead to Work in Process than the actual amount of overhead cost for the year.

○ applied an amount of overhead to Work in Process that was equal to the actual amount of overhead.

○ found it necessary to recalculate the predetermined overhead rate.

The estimated total manufacturing overhead cost of £300,000 is more than the actual manufacturing overhead costs. As Karvel Corporation uses a predetermined overhead rate based on machine-hours to apply manufacturing overhead to jobs; it has applied more overhead to Work in Process than the actual amount of overhead cost for the year.

References

Multiple Choice	Difficulty: Intermediate