True and False Questions

1. The three costs of elements ordinarily included in the inventoriable cost of a manufactured product are direct materials, direct labor, and marketing costs.

2. Depreciation on manufacturing equipment is a period cost.

3. Salaries and wages incurred in the factory would be product costs.

4. The cost of goods manufactured is included in the cost of goods available for sale in a manufacturing company.

5. Like product costs, period costs are not necessarily treated as expenses in the period which they occur.

Multiple Choice Questions

6. Which of the following would most likely be included as part of manufacturing overhead in the production of a wooden table?

   A) The amount paid to the individual who stains the table.
   B) The commission paid to the salesperson who sold the table.
   C) The cost of the glue used in the table.
   D) The cost of the wood used in the table.

7. In a manufacturing company, direct labor costs combined with direct materials costs are known as:

   A) period costs.
   B) conversion costs.
   C) prime costs.
   D) opportunity costs.

8. Which of the following combinations of costs make up conversion cost?

   A) Direct materials cost and manufacturing overhead cost.
   B) Direct labor cost and manufacturing overhead cost.
   C) Marketing cost and administrative costs.
   D) Direct materials cost and direct labor cost.
9. Gabriel Inc. is a merchandising company. Last month the company’s merchandise purchases totaled $70,000. The company’s beginning merchandise inventory was $15,000 and its ending merchandise inventory was $22,000. What was the company’s cost of goods sold for the month?
   A) $63,000.
   B) $77,000.
   C) $107,000.
   D) $70,000.

10. Using the following data for April, calculate the cost of goods manufactured:

   Direct materials ................................................. $23,00
   Direct labor ....................................................... $21,000
   Manufacturing overhead ................................... $37,000
   Beginning work in process inventory .................... $13,000
   Ending work in process inventory ........................ $18,000

   The cost of goods manufactured was:
   A) $81,000.
   B) $76,000.
   C) $94,000.
   D) $86,000.

Use the following to answer questions 11-13.

Hampton Corp. reported the following data for the last year:

Work in process inventory, beginning .......... $100
Work in process inventory, ending ............... $80
Finished goods inventory, beginning ............ $150
Finished goods inventory, ending ............... $200
Direct labor cost .............................................. $400
Direct material cost ......................................... $500
Manufacturing overhead cost ........................ $300

11. The prime cost is:
   A) $800.
   B) $900.
   C) $500.
   D) $400.

12. The conversion cost is:
   A) $700.
   B) $800.
   C) $900.
   D) $500.
13. The cost of goods manufactured is:

A) $1,180.
B) $1,120.
C) $1,200.
D) $1,220.

14. The following data (in thousands of dollars) have been taken from the accounting records of Larkin Corporation for the just completed year.

Sales……………………………………..$860
Purchases of raw materials …………….$170
Direct labor……………………………….$220
Manufacturing overhead……………….$210
Administrative expenses……………….$120
Selling expenses……………………….$170
Raw material inventory, beginning……$10
Raw material inventory, ending………..$50
Work in process inventory, beginning..$80
Work in process inventory, ending…….$60
Finished goods inventory, beginning..$110
Finished goods inventory, ending…….$100

Required:

a. Prepare a Schedule of Cost of Goods Manufactured in good form.

b. Compute the Cost of Goods Sold.

c. Using data from your answers above as needed, prepare an Income Statement in good form.
ANSWERS

True and false


Multiple Choice


14. a. Schedule of cost of goods manufactured

Direct materials:
- Raw materials inventory, beg. $10
- Add: Purchases of raw materials $170
- Raw materials available for use $180
- Deduct: Raw materials inventory, ending $50
- Raw materials used in production $130

Direct labor $220
Manufacturing overhead $210
Total manufacturing cost $560
Add: Work in process inventory, beginning $80
Total manufacturing cost $640
Deduct: Work in process inventory, ending $60
Cost of goods manufactured $580

b. Computation of cost of goods sold

Finished goods inventory, beginning $110
Add: Cost of goods manufactured $580
Goods available for sale $690
Deduct: Finished goods inventory, ending $100
Cost of goods sold $590

c. Income Statement

Sales $860
Less: Cost of goods sold $590
Gross margin $270
Less: Administrative expenses $120
Less: Selling expenses $170
Net operating income $(20)