AC 202 Management Accounting

Exercise 1: Overview of Managerial Accounting and Cost Concepts

Q. 1 Classification of costs

Using the code letters below, indicate in the space provided how each of the following costs should be classified in the indicated **Pen manufacturing company**:

Code Letters

DM	= Direct materials	WIP	= Work in process
DL	= Direct labor	FG	= Finished goods
MOH	= Manufacturing overhead	PC	= Period cost

________ 1. Property tax on the factory building
________ 2. The accountant salary
________ 3. Plastic used to manufacture pens
________ 4. Janitors at the factory
________ 5. Manufactured pens waiting to be sold to customers
________ 6. Advertising expense
________ 7. Partially completed pens

Q. 2 True/False Questions

For each of the following, circle the T or the F to indicate whether the statement is true or false.

T	F	1. The three basic types of manufacturing cost are direct materials, direct labor and manufacturing overhead.
T	F	2. Manufacturing overhead is a term used to describe all manufacturing costs other than direct labor and direct materials.
T	F	3. Supervisor salaries, equipment repairs, depreciation of machinery and direct materials are all examples of manufacturing overhead.
T	F	4. Executive salaries are typically considered variable costs.
T	F	5. As volume increases, per unit variable costs stay the same.
T	F	6. As volume increases per unit fixed costs stay the same.

Q.3 Consider the following costs:

Office and general salaries	\$40,000
Direct labor	\$80,000
Factory insurance	\$8,000
Sales commissions	\$12,000
Office insurance	\$2,000
Factory utilities	\$8,000

What is the total dollar amount of the costs to be recorded in the Manufacturing Overhead account?

Q.4 Flow of costs
Information about the manufacturing costs and inventories of Greco Mfg. Co. in 20x1 is shown below:

Manufacturing Costs:

Direct materials purchased	$665,000
Direct labor charged to production	325,000
Manufacturing overhead	450,000

	Dec. 31, 20x1	**Jan. 1, 20x1**
Materials	$60,000	$45,000
Work in process	22,000	27,000
Finished goods	72,000	78,000

a. Using the appropriate data, compute the **cost of finished goods manufactured** for the year ended December 31, 20x1
b. Compute the **cost of goods sold** in 20x1.

Q. 5 The following items (in millions) pertain to Chan Corporation:

For Specific Date		**For Year 20x1**	
Work-in-process inventory, Jan 1	$ 10	Plant utilities	$ 5
Direct materials inventory, Dec 31	5	Indirect manufacturing labor	20
Finished goods inventory, Dec 31	12	Depreciation - plant & equipment	9
Accounts payable, Dec 31	20	Revenues	350
Accounts receivable, Jan 1	50	Miscellaneous manufacturing overhead	10
Work-in-process inventory, Dec 31	2	Direct materials purchased	80
Finished goods inventory, Jan 1	40	Direct manufacturing labor	40
Accounts receivable, Dec 31	30	Plant supplies used	6
Accounts payable, Jan 1	40	Property taxes on plant	1
Direct materials inventory, Jan 1	30	Marketing, distribution, and customer-service costs	90

Calculate the following costs:
(1) Cost of goods manufactured
(2) Cost of goods sold
(3) Gross margin
(4) Operating income
(5) Prime costs
(6) Conversion costs and
(7) Total period costs