

ACCT 225 – Managerial Accounting  
Review Session – Exam 1

**Format:** To prepare for the upcoming exam, we will work through a series of practice exam questions during the review session. These questions are intended to provide additional exposure to some of the concepts covered on the exam, as well as to give you an opportunity to practice answering questions in a format similar to the exam. Please note that this session is not intended to be a comprehensive review of all possible concepts on the exam.

**Chapter 1**

1. Chezpere Company manufactures and sells washing machines. In order to make assembly of the machines faster and easier, some of the metal parts in the machines are coated with grease. How should the cost of this grease be classified?

	Direct Material Cost	Fixed Cost
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

2. Manufacturing overhead includes:

- a. all direct material, direct labor and administrative costs.
- b. all manufacturing costs except direct labor.
- c. all manufacturing costs except direct labor and direct materials.
- d. all selling and administrative costs.

3. The fixed portion of the cost of electricity for a manufacturing plant is a:

	Period cost	Product cost
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

4. When the level of activity decreases within the relevant range, the fixed cost per unit will:

- a. decrease.
- b. increase.
- c. remain the same.
- d. The effect cannot be predicted

5. Abel Company's manufacturing overhead is 20% of its total conversion costs. If direct labor is \$38,000 and if direct materials are \$47,000, the manufacturing overhead is:

- a. \$152,000
- b. \$11,750
- c. \$21,250
- d. \$9,500

6. The information below relates to Derby Manufacturing Company's operations for a recent month. (Assume that all raw materials are direct materials.):

Purchases of raw materials.....	\$91,000
Direct labor cost .....	\$122,000
Selling costs (total).....	\$42,000
Administrative costs (total).....	\$56,000
Manufacturing overhead costs (total) .....	\$340,000
Raw materials inventory, beginning .....	\$22,000
Work in process inventory, beginning .....	\$27,000
Finished goods inventory, beginning .....	\$42,000
Raw materials inventory, ending .....	\$7,000
Work in process inventory, ending .....	\$35,000
Finished goods inventory, ending .....	\$15,000

What was Derby's cost of goods manufactured for the month?

- a. \$545,000
- b. \$560,000
- c. \$568,000
- d. \$587,000

## Chapter 2

1. A flour manufacturer is more likely to use process costing than job-order costing whereas a manufacturer of customized leather jackets is more likely to use job-order costing than process costing. (True or False)
2. In a predetermined overhead rate in a job-order costing system that is based on machine-hours, which of the following would be used in the numerator and denominator?

	Numerator	Denominator
a.	Actual manufacturing overhead	Actual machine-hours
b.	Actual manufacturing overhead	Estimated machine-hours
c.	Estimated manufacturing overhead	Actual machine-hours
d.	Estimated manufacturing overhead	Estimated machine-hours

3. Overapplied overhead would result if:
  - a. the plant was operated at less than normal capacity.
  - b. overhead costs incurred were less than estimated overhead costs.
  - c. overhead costs incurred were less than overhead costs charged to production.
  - d. overhead costs incurred were greater than overhead charged to production.
4. Chipata Corporation applies manufacturing overhead to jobs on the basis of machine-hours. Chipata estimated 25,000 machine-hours and \$10,000 of manufacturing overhead cost for the year. During the year, Chipata incurred 26,200 machine-hours and \$11,300 of manufacturing overhead. What was Chipata's underapplied or overapplied overhead for the year?
  - a. \$480 overapplied
  - b. \$820 underapplied
  - c. \$1,300 overapplied
  - d. \$1,300 underapplied

5. Serritella Manufacturing Corporation uses a job-order costing system. At the beginning of the year, Serritella had \$38,000 in its Work in Process inventory account. The following information relates to Serritella's operations for the year:

Direct materials cost assigned to production .....	\$114,000
Direct labor cost assigned to production.....	\$78,000
Selling, general, and administrative expenses incurred ..	\$25,000
Manufacturing overhead cost incurred .....	\$296,000
Underapplied manufacturing overhead cost.....	\$11,000
Cost of goods manufactured .....	\$502,000
Cost of goods sold.....	\$509,000

What is the balance in Serritella's Work in Process inventory account at the end of the year? (Assume that the Manufacturing Overhead account has not yet been closed out.)

- a. \$13,000
- b. \$24,000
- c. \$35,000
- d. \$60,000

### Chapter 3

1. Activity-based costing uses a number of activity cost pools, each of which is allocated to products on the basis of direct labor-hours. (True or False)
2. When a company changes from a traditional costing system to an activity-based costing system, the unit product costs of low volume products typically increase more than the unit product costs of high volume products decrease. (True or False)
3. Which of the following activities would be classified as a batch-level activity?
  - a. Setting up equipment.
  - b. Designing a new product.
  - c. Training employees.
  - d. Milling a part required for the final product.

4. 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:

Activity Cost Pool	Estimated Cost	Expected Activity		
		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 overhead cost per unit of Product A under activity-based costing is closest to:

- a. \$20.40
- b. \$10.00
- c. \$18.15
- d. \$17.00

#### Chapter 4

1. In a process costing system, units transferred to the next processing department are presumed to be 100% complete with respect to the work performed by the transferring department. (True or False)

2. Which of the following are needed to compute equivalent units for conversion costs under the weighted-average method of process costing?

	Percentage completion of beginning work in process	Percentage completion of ending work in process
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

3. Health Beverage Company uses a process costing system to collect costs related to the production of its celery flavored cola. The cola is first processed in a Mixing Department at Health and is then transferred out and finished up in the Bottling Department. The finished cases of cola are then transferred to Finished Goods Inventory. The following information relates to Health's two departments for the month of January:

	Mixing	Bottling
Cases of cola in work in process, January 1 .....	10,000	3,000
Cases of cola completed/transferred out during January .....	77,000	?
Cases of cola in work in process, January 31 .....	4,000	8,000

How many cases of cola were completed and transferred to Finished Goods Inventory during January?

- a. 66,000
- b. 71,000
- c. 72,000
- d. 74,000

4. Colby Company has a process costing system in which the weighted-average method is used. The company adds all materials at the beginning of the process in the Molding Department, which is the first of two stages of its production process. Information concerning the materials used in the Molding Department during March is as follows:

	Units	Materials Costs
Work in process at March 1 .....	22,000	\$11,000
Units started during March .....	90,000	\$46,120
Units completed and transferred to next department during March .....	97,000	

What was the materials cost of the work in process inventory at March 31?

- a. \$11,220
- b. \$7,500
- c. \$5,100
- d. \$7,650

5. Limber Company uses the weighted-average method in its process costing system. Operating data for the first processing department for the month of June appear below:

	Units	Percent Complete with Respect to Conversion
Beginning work in process inventory .....	18,000	80%
Started into production during June .....	81,000	
Ending work in process inventory .....	17,000	80%

According to the company's records, the conversion cost in beginning work in process inventory was \$15,264 at the beginning of June. Additional conversion costs of \$68,208 were incurred in the department during the month.

What was the cost per equivalent unit for conversion costs for the month? (Round off to three decimal places.)

- a. \$0.873
- b. \$0.696
- c. \$0.842
- d. \$1.060