

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

**True or False and Support your answer, Why True or Why False!**

8-1 Material price variances are often isolated at the time materials are purchased, rather than when they are placed into production, to facilitate earlier recognition of variances.

8-2 Waste on the production line will result in a materials price variance.

8-3 The standard quantity or standard hours allowed refers to the amount of the input that should have been used to produce the actual output of the period.

**Multiguess Coneptual**

8-4 The variance that is most useful in assessing the performance of the purchasing department manager is:

- a. the materials quantity variance.
- b. the materials price variance.
- c. the labor rate variance.
- d. the labor efficiency variance

8-5 A labor efficiency variance resulting from the use of poor quality materials should be charged to:

- A) the production manager.
- B) the purchasing agent.
- C) manufacturing overhead.
- D) the industrial engineering department.

8-6 Which department should usually be held responsible for an unfavorable materials price variance?

- A) Production.
- B) Materials Handling.
- C) Engineering.
- D) Purchasing.

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

8-7 The following materials standards have been established for a particular product:

Standard quantity per unit of output .....	4.6 grams
Standard price.....	\$15.05 per gram

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

..... <sup>A</sup>	3,100 grams
Actual cost of materials purchased .....	\$44,020
Actual materials used in production ....	2,400 grams
Actual output .....	300 units

What is the materials quantity variance for the month?

- A) \$9,940 U
- B) \$15,351 U
- C) \$14,484 U
- D) \$10,535 U

8-8 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?

- A) \$3,141 U
- B) \$2,025 U
- C) \$8,600 U
- D) \$8,725 U

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

8-9 Lion Company's direct labor costs for the month of January were as follows:

Actual total direct labor-hours .....	20,000
Standard total direct labor-hours .....	21,000
Direct labor rate variance—unfavorable....	\$3,000
Total direct labor cost .....	\$126,000

What was Lion's direct labor efficiency variance?

- a. \$6,000 favorable
- b. \$6,150 favorable
- c. \$6,300 favorable
- d. \$6,450 favorable

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

8-10. Information on Rex Co.'s direct material costs for May follows:

Actual quantity of direct materials purchased and used..	30,000	pounds
Actual cost of direct materials .....	\$84,000	
Unfavorable direct materials quantity variance .....	\$3,000	
Standard quantity of direct materials allowed for May production.....	29,000	pounds

For the month of May, what was Rex's direct materials price variance?

- a. \$2,800 favorable
- b. \$2,800 unfavorable
- c. \$6,000 unfavorable
- d. \$6,000 favorable

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

8-11. (Appendix) The following direct labor standards have been established for product M80A:

Standard direct labor-hours .....	1.3 hours per unit of M80 A
Standard direct labor wage rate.....	\$14.10 per hour

The following data pertain to the most recent month's operations during which 2,000 units of product M80A were made:

Actual direct labor-hours worked ...	2,700
Actual direct labor wages paid.....	\$36,450

Required:

- a. What was the labor rate variance for the month?
- b. What was the labor efficiency variance for the month?
- c. Prepare a journal entry to record direct labor costs during the month, including the direct labor variances.

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

**True or False and Support your answer, Why True or Why False!**

9-1. A key feature of a flexible budget is that actual results can be compared to budgeted costs at the same level of activity. 9

9-2 In a flexible budget, when the activity declines, the variable costs per unit also declines.

9-3 The overhead spending variance is not affected by excessive usage or waste of overhead materials. 9

9-4 The variable overhead efficiency variance provides a measure of how efficiently the activity base which underlies the flexible budget is being utilized in production. 9

9-5. When using a flexible budget, a decrease in activity within the relevant range: 9

- a. decreases variable cost per unit.
- b. decreases total costs.
- c. increases total fixed costs.
- d. increases variable cost per unit.

9-6. A budget that is based on the actual activity of a period is known as a: 9

- a. continuous budget.
- b. flexible budget.
- c. static budget.
- d. master budget.

9-7. The manufacturing overhead variance that is a measure of capacity utilization is: 9

- a. the overhead spending variance.
- b. the overhead efficiency variance.
- c. the overhead budget variance.
- d. the overhead volume variance

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

9-8 How would the amounts above be presented at a denominator activity level of 13,000 machine hours if indirect materials is a variable cost and factory rent is a fixed cost? (Relevant Range is 10,000 hours to 15,000 hours and the flexible budget is based off of 12,000 hours of activity with \$7,800 Indirect materials and Factory Rent of \$18,000)

	<u>Indirect Materials</u>	<u>Factory Rent</u>
A)	\$7,800	\$14,400
B)	\$7,800	\$18,000
C)	\$8,450	\$18,000
D)	\$6,240	\$18,000

9-9. Billa Corporation's abbreviated flexible budget for two levels of activity appears below:

	Cost Formula (per machine- hour)	Activity (in machine-hours)	
		<u>4,600</u>	<u>4,700</u>
Total variable overhead cost .....	\$11.70	\$ 53,820	\$ 54,990
Total fixed overhead cost .....		<u>341,596</u>	<u>341,596</u>
Total overhead cost .....		<u>\$395,416</u>	<u>\$396,586</u>

If the denominator level of activity is 4,700 machine-hours, the predetermined overhead rate would be:

- a. \$11.70
- b. \$72.68
- c. \$84.38
- d. \$1,170.00

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

Use the following to answer questions 9-10, 9-11, 9-12, 9-14:

Dorf Company uses a standard cost system in which it applies manufacturing overhead on the basis of direct labor-hours. Two direct labor-hours are required for each unit produced. The denominator activity was set at 9,000 units. Manufacturing overhead was budgeted at \$135,000 for the period; 20 percent of this cost was fixed. The 17,200 hours worked during the period resulted in production of 8,500 units. Variable manufacturing overhead cost incurred was \$108,500 and fixed manufacturing overhead cost was \$28,000.

9-10. The variable overhead spending variance for the period was:

- A) \$5,300 unfavorable.
- B) \$1,200 unfavorable.
- C) \$6,300 unfavorable.
- D) \$6,500 unfavorable.

9-11. The variable overhead efficiency variance for the period was:

- A) \$5,300 unfavorable.
- B) \$1,200 unfavorable.
- C) \$1,500 unfavorable.
- D) \$6,500 unfavorable.

9-12. The fixed overhead budget variance for the period was:

- A) \$6,300 unfavorable.
- B) \$2,500 unfavorable.
- C) \$1,500 unfavorable.
- D) \$1,000 unfavorable.

9-14. The fixed overhead volume variance for the period was:

- A) \$750 unfavorable.
- B) \$2,500 unfavorable.
- C) \$1,500 unfavorable.
- D) \$1,000 unfavorable.

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

The following data have been provided by Liggett Corporation:

Budgeted production .....	7,400	units
Standard machine-hours per unit ...	6.6	machine-hours
Standard lubricants .....	\$3.50	per machine-hour
Standard supplies .....	\$2.00	per machine-hour

Actual production.....	7,600	units
Actual machine-hours (total) .....	49,840	machine-hours
Actual lubricants (total) .....	\$179,821	
Actual supplies (total) .....	\$98,933	

9-15. The variable overhead spending variance for lubricants is:

- a. \$1,120 F
- b. \$5,381 F
- c. \$4,261 U
- d. \$5,381 U

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

**Chapter 10**

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

**True or False and Support your answer, Why True or Why False!**

10-1. A responsibility center is a business segment whose manager has control over costs, revenues, or investments in operating assets.

10-2. Residual income is used in the numerator to compute turnover in an ROI analysis.

10-3. Margin equals Stockholders' Equity divided by Sales.

10-4. A cost center is also a responsibility center.

10-5. Residual income is:

- a. Net operating income plus the minimum required return on average operating assets.
- b. Net operating income less the minimum required return on average operating assets.
- c. Contribution margin plus the minimum required return on average operating assets.
- d. Contribution margin less the minimum required return on average operating assets.

10-6. A segment of a business responsible for both revenues and expenses would be called:

- a. a cost center.
- b. an investment center.
- c. a profit center.
- d. residual income.

10-7. Which of the following measures of performance encourages continued expansion by an investment center so long as it is able to earn a return in excess of the minimum required return on average operating assets?

- a. return on investment
- b. transfer pricing
- c. the contribution approach
- d. residual income

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

The following data pertain to Turk Company's operations last year:

Sales .....	\$900,000
Net operating income .....	\$36,000
Contribution margin .....	\$150,000
Average operating assets .....	\$180,000
Stockholders' equity .....	\$100,000
Plant, property, & equipment .....	\$120,000

10-8. Turk's return on investment for the year was:

- a. 4%
- b. 15%
- c. 36%
- d. 20%

10-9. If the residual income for the year was \$9,000, the minimum required rate of return must have been:

- a. 15%
- b. 4%
- c. 20%
- d. 36%

The Hum Division of the Ho Company reported the following data for last year:

Sales .....	\$800,000
Operating expenses .....	\$650,000
Interest expense .....	\$50,000
Tax expense .....	\$30,000
Stockholders' equity .....	\$200,000
Average operating assets .....	\$600,000
Minimum required rate of return .....	12%

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

10-10. The residual income for the Hum Division last year was:

- a. \$126,000
- b. \$46,000
- c. \$78,000
- d. \$22,000

Sales .....	\$800,000
Operating expenses .....	<u>650,000</u>
Net operating income .....	\$150,000

10-11 The return on investment last year for the Hum Division was:

- a. 75%
- b. 25%
- c. 35%
- d. 12%

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

Edith Carolina is president of the Deed Corporation. The company is decentralized, and leaves investment decisions up to the discretion of the division managers. Michael Sanders, manager of the Cosmetics Division, has had a return on investment of 14% for his division for the past three years and expects the division to have the same return in the coming year. Sanders has the opportunity to invest in a new line of cosmetics which is expected to have a return on investment of 12%.

Suppose Deed Corporation evaluates managerial performance using return on investment. Edith Carolina, as president of the company, may view the opportunity for taking on the cosmetics line differently from Michael Sanders, manager of the Cosmetics Division. What action would each of them prefer with respect to the decision of whether to take on the new cosmetics line?

10-11

- |    | Carolina | Sanders |
|----|----------|---------|
| a. | accept   | reject  |
| b. | reject   | accept  |
| c. | accept   | accept  |
| d. | reject   | reject  |

If the Deed Corporation evaluates managerial performance using residual income based on the corporate minimum required rate of return of 8%, what decision would be preferred by Edith Carolina and Michael Sanders?

10-12

- |    | Carolina | Sanders |
|----|----------|---------|
| a. | accept   | reject  |
| b. | reject   | accept  |
| c. | accept   | accept  |
| d. | reject   | reject  |

**Franklin University**  
**Accounting 225**  
**Test #3 Workshop Test Review**  
**Chapters 8-9-10 Student Version**

The following information relates to the Quilt Division of TDS Corporation for last year:

Sales .....	\$200,000
Contribution margin .....	\$90,000
Net operating income .....	\$65,000
Average operating assets .....	\$500,000
Minimum desired rate of return .....	10%

10-12. What was the Quilt Division's return on investment (ROI) for last year?

- a. 13%
- b. 18%
- c. 40%
- d. 45%

10-14. Assume that Quilt was being evaluated solely on the basis of residual income. Which of the following investment opportunities would Quilt want to invest in?

	An investment that generates a return of 12%	An investment that generates a return of 16%
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No