Acct 2301 (Spring 2006) - Exam 2

Student: ____

1. Gonzalez Company makes a product that is expected to use 1.2 pounds of material per unit of product. The material has a standard cost of $2 per pound. Gonzalez actually used 1.25 pounds of material per unit of product made in January. The actual cost of material was $1.95 per pound. Based on this information alone, the condition of the variances for the January production would be

   A. unfavorable for price and unfavorable for usage.
   B. unfavorable for price and favorable for usage.
   C. favorable for price and unfavorable for usage.
   D. favorable for price and favorable for usage.
   E. None of the above.

2. The Betsey Company provides the following standard cost data:

Direct material (3 gallons @ $5 per gallon)	$15.00
Direct labor (2 hours @ $12 per hour)	24.00

   During the period, the company produced and sold 25,000 units incurring the following costs:

Direct materials	75,000 gallons at $4.90 per gallon
Direct labor	47,500 hours at $12.05 per hour

   The materials price variance was

   A. $7,200 favorable.
   B. $7,200 unfavorable.
   C. $7,500 favorable.
   D. $7,500 unfavorable.
   E. None of the above.

3. The Springer Company provides the following standard cost data:

Direct material (3 gallons @ $5 per gallon)	$15.00
Direct labor (2 hours @ $12 per hour)	24.00

During the period, the company produced and sold 26,000 units incurring the following costs:

Direct materials	75,000 gallons at $4.90 per gallon
Direct labor	47,500 hours at $12.05 per hour

The materials quantity (usage) variance was

A. $15,000 favorable.
B. $15,000 unfavorable.
C. $14,700 favorable.
D. $14,700 unfavorable.
E. None of the above.

4. At the beginning of the year, Goldman Company expected to incur $80,000 of overhead costs in producing 10,000 units of product. The direct material cost is $30 per unit of product. Direct labor cost is $15 per unit. During March, 800 units were produced. The total cost of the units made in January was:

A. $6,400
B. $45,000
C. $53,000
D. $36,000
E. None of the above

5. Carie Company has completed its sales budget for the first quarter of 2005. Projected unit credit sales for this quarter are shown below:

January	1,000
February	1,200
March	1,500
April	1,600

The company's past records show collection of credit sales as follows: 20% in the month of sale and the balance in the following month. If inventory units are sold for $50, the total cash collection on receivables in February will be

A. $52,000
B. $40,000
C. $60,000
D. $50,000
E. None of the above.

6. Calico Company makes a product that is expected to require the use of 4 hours of labor per unit of product. The standard cost of labor is $12.00. Calico actually used 3.8 hours of labor per unit of product. The actual cost of labor was $12.50 per hour. Calico actually made 3,000 units of product during the period. Based on this information alone, the labor usage (i.e., efficiency) variance is

   A. $7,200 favorable.

   B. $600 favorable.

   C. $7,200 unfavorable.

   D. $600 unfavorable.

   E. None of the above.

7. Doug Company expects the following total sales:

Month	Sales
March	$30,000
April	$20,000
May	$30,000
June	$25,000

   The company expects 70% of its sales to be credit sales. Credit sales are collected as follows: 15% in the month of sale, 85% in the month following the sale. The budgeted accounts receivable balance on June 30th is

   A. $14,875

   B. $17,500

   C. $17,850

   D. $20,475

   E. There is not enough information given.

8. Bartley Company has budgeted the following information for February:

Cash receipts	$542,000
Beginning cash balance	$ 10,000
Cash payments	$560,000
Desired ending cash cushion	$ 50,000

If there is a cash shortage, the company borrows money from the bank. All cash is borrowed at the beginning of the month in $1,000 increments and interest is paid monthly at 1% on the first day of the following month. The company had no debt before February 1 st. After interest expense, the ending cash balance for February would be

A. $44,200

B. $50,000

C. $52,200

D. $0

E. None of the above.

9. At Home Furniture Company makes dining tables. The company has always used direct labor cost to allocate overhead to its two lines, Country and Modern. The manufacture of both lines has been very labor intensive. The overhead allocation based on direct labor hours is reasonably accurate. Recently, the company automated production of its Modern line of cabinets. It continues to use labor dollars as the overhead allocation base for both lines. This practice will likely result in which of the following?

A. Overhead cost will be allocated accurately between the two lines.

B. Too much overhead cost will be allocated to the Modern line.

C. Too much overhead cost will be allocated to the Country line.

D. B and C are correct.

E. None of the above.

10. Sherman Company makes a product that is expected to require the use of 5 hours of labor per unit of product. The standard cost of labor is $10.50. Shimano actually used 4.8 hours of labor per unit of product. The actual cost of labor was $10.75 per hour. Shimano actually made 1,000 units of product during the period. Based on this information alone, the labor price (i.e., rate) variance is

A. $1250 favorable.

B. $1250 unfavorable.

C. $1200 favorable.

D. $1200 unfavorable.

E. None of the above.

11. Cruiser Company makes steel and titanium handle bars for bicycles. It requires approximately 1 hour of labor to make one handle bar of either type. During the most recent accounting period, the company made 8,000 steel bars and 2,000 titanium bars. Setup costs amounted to $84,000 for the 12 batches (i.e., 8 steel and 4 titanium) of bars produced during the period. If activity-based costing is used to allocate overhead costs to the two products, the amount of setup cost assigned to the steel bars will be: (Round to the nearest dollar.)

   A. $ 56,000
   B. $28,000
   C. $7,000
   D. $67,200
   E. None of the above.

12. White Company produces several lines of storage boxes. The plant is highly automated and uses an activity-based costing system to allocate overhead costs to its various products. During the upcoming period the company expects to produce 72,000 units. The costs and cost drivers associated with four activity cost pools are given below:

ACTIVITIES:	UNIT LEVEL	BATCH LEVEL	PRODUCT LEVEL	FACILITY LEVEL
Cost	$30,000	$8,000	$15,000	$36,000
Cost Driver	12,000 labor hrs	200 set ups	% of use	120,000 units

   Production of 24,000 units of its popular over-stuffed box required 3,000 labor hours, 50 setups, and consumed one-fifth of the product sustaining activities. How much total overhead will be allocated to the over-stuffed box using activity-based costing?

   A. $ 7,500
   B. $19,700
   C. $22,250
   D. $29,667
   E. None of the above.

13. Daisy's Boutique paid $200,000 in rent for the year. The company's three deparments are women's, men's, and children's. The departments occupy 4,000, 3,500, and 2,500 square feet, respectively. How much of the rent should be allocated to the men's department?

   A. $80,000
   B. $70,000
   C. $50,000
   D. $20,000
   E. None of the above.

14. Dunder Mifflin budgeted the following transactions for Jan. 2006:

Sales (75% collected in month of sale)	$200,000
Cash Operating Expenses	105,000
Cash Purchases of Capital Investments	75,000
Cash Payment of Debt	20,000
Depreciation on Operating Assets	15,000

This is the company's first month of sales. The beginning cash balance was $40,000. The company desires to have a $20,000 ending cash balance. What is the amount of the cash overage or shortage?

A. $10,000 shortage

B. $25,000 shortage

C. $30,000 shortage

D. $45,000 shortage

E. There is no shortage.

15. Raider Company expects credit sales for January to be $80,000. Cash sales are expected to be $20,000. The company expects credit and cash sales to increase 10% each month. Credit sales are collected in the month following the month in which sales are made. Based on this information the amount of cash collections in February would be:

A. $100,000

B. $102,000

C. $108,000

D. $110,000

E. None of the above.

16. Brown Company's sales budget shows the following expected total sales:

Month	Sales
January	$25,000
February	$30,000
March	$35,000
April	$40,000

The company expects 75% of its sales to be on account (credit sales). Credit sales are collected as follows: 25% in the month of sale, 65% in the month following the sale with the remainder being uncollectible and written off in the month following the sale. The total cash inflows from the collection of receivables in April would be

A. $23,437.50

B. $17,062.50

C. $26,250.00

D. $24,562.50

E. None of the above.

17. If sales for January are budgeted at 70,000 units and the company expects sales to increase 6% each month, how many units will need to be purchased in February if the company's policy is to keep ending inventory each month at 10,000 units?

A. 64,200 units
B. 76,200 units
C. 84,200 units
D. 80,000 units
E. None of the above.

18. When are variances labeled as favorable?

A. When actual costs are less than standard costs.
B. When standard costs are less than actual costs
C. When expected sales are greater than actual sales
D. When actual sales are less than expected sales.
E. All of the above.

19. JP Manufacturing Co. produces two products. The products' identified costs are as follows:

	Product A	Product B
Direct Materials	$18,000	$16,000
Direct Labor	$14,000	$28,000

The company's overhead costs of $119,000 are allocated based on material cost. Assume 10,000 units of product A are produced and 12,000 units of Product B are produced. What amount of overhead costs would be assigned to Product B?

A. $79,333
B. $39,667
C. $63,000
D. $56,000
E. None of the above.

20. The following static budget is provided:

Units		20,000 units
Sales	$	200,000
Less variable costs:		
Manufacturing costs	$	70,000
Selling and administrative costs	$	40,000
Contribution Margin	$	90,000
Less fixed costs:		
Manufacturing costs	$	22,000
Selling and administrative costs	$	17,000
Net Income	$	51,000

What will be the net income if 12,000 units are produced and sold?

A. $ 30,600

B. $ 15,000

C. ($29,000)

D. $ 0

E. There is not enough information.

21. Employees of IPS, Inc. worked 2,400 direct labor hours in January and 2,100 direct labor hours in February. IPS expects to use 26,400 direct labor hours during the year, and expects to incur$132,000 of Worker's Compensation insurance cost for the year. The cash payment for this cost will be paid in April. How much insurance cost should be allocated to products made in January and February?

A. $12,000 ; $10,500

B. $12,000 ; $11,000

C. $11,000 ; $11,000

D. $10,500 ; $11,000

E. None of the above

22. Allen Company makes two products. Making Product X requires 4,000 hours of labor and Product Y requires 6,000 hours of labor. Allen undertakes an automation program that reduces the consumption of labor required by Product Y to only 2,000 hours of labor. Product X is not affected by the automation process. Overhead cost prior to the automation totaled $10,000. After automation, overhead cost amounted to $24,000. Assuming Allen uses direct labor hours as a company-wide allocation base *before and after* the automation, the amount of overhead cost allocated to

A. Product X would be $4,000 prior to automation and $16,000 after automation.

B. Product X would be $6,000 prior to automation and $8,000 after automation.

C. Product Y would be $8,000 prior to automation and $8,000 after automation.

D. Product Y would be $2,000 prior to automation and $12,000 after automation.

E. None of the above.

23. Moore Company allocates overhead on the basis of direct labor hours. It allocates overhead costs of $6,400 to two different jobs as follows:
Job 1: (10 hours) = $3,200 Job 2: (10 hours) = $3,200
The production process for Job 1 is automated. Now Job 1 requires only 2 hours of direct labor but four hours of mechanical processing. As a result, total overhead increases to $8,500. Select the correct statement from the following.

A. The amount of overhead assigned to each product will increase.

B. The amount of overhead assigned to Job 2 will increase.

C. The amount of overhead assigned to each product will decrease.

D. The amount of overhead assigned to Job 1 will increase.

E. All of the above.

24. Owl Company is in the process of preparing a purchases budget for the first quarter of 2004. The company has expected sales as follows:

December, 2003	$ 88,000
January, 2004	$ 93,000
February, 2004	$102,000
March, 2004	$123000

Cost of goods sold is expected to be 80% of sales. The company would like to have ending inventory each month equal to 20% of the following month's predicted cost of sales. The total cost of purchases in February is

A. $106,200

B. $ 93,000

C. $ 88,876

D. $ 84,960

E. None of the above.

25. Oldman Company employs material handling employees who move materials between production divisions at a labor cost of $300,000 a year. It is estimated that these employees move 50,000 pounds of material per year. If 3,500 pounds are moved in August, how much of the labor cost should be assigned to products made in August?

A. $15,000

B. $21,000

C. $25,000

D. $60,000

E. There is not enough information to determine.