

CHAPTER 1

Managerial Accounting

ASSIGNMENT CLASSIFICATION TABLE

| <u>Learning Objectives</u> | <u>Questions</u> | <u>Brief Exercises</u> | <u>Do It!</u> | <u>Exercises</u> | <u>A Problems</u> |
|---|------------------------------------|------------------------|---------------|--------------------------------------|-------------------|
| 1. Identify the features of managerial accounting and the functions of management. | 1, 2, 3, 4, 5, 6, 7 | 1, 2 | 1 | 1 | |
| 2. Describe the classes of manufacturing costs and the differences between product and period costs. | 8, 9, 10 | 3, 4, 5, 6 | 2 | 2, 3, 4, 5, 6, 7, 13 | 1A, 2A |
| 3. Demonstrate how to compute cost of goods manufactured and prepare financial statements for a manufacturer. | 11, 12, 13, 14, 15, 16, | 7, 8, 9, 10 | 3 | 8, 9, 10, 11, 12, 13, 14, 15, 16, 17 | 3A, 4A, 5A |
| 4. Discuss trends in managerial accounting. | 17, 18, 19, 20, 21, 22, 23, 24, 25 | 11 | 4 | 18 | |

ASSIGNMENT CHARACTERISTICS TABLE

| Problem Number | Description | Difficulty Level | Time Allotted (min.) |
|-----------------------|---|-------------------------|-----------------------------|
| 1A | Classify manufacturing costs into different categories and compute the unit cost. | Simple | 20–30 |
| 2A | Classify manufacturing costs into different categories and compute the unit cost. | Simple | 20–30 |
| 3A | Indicate the missing amount of different cost items, and prepare a condensed cost of goods manufactured schedule, an income statement, and a partial balance sheet. | Moderate | 30–40 |
| 4A | Prepare a cost of goods manufactured schedule, a partial income statement, and a partial balance sheet. | Moderate | 30–40 |
| 5A | Prepare a cost of goods manufactured schedule and a correct income statement. | Moderate | 30–40 |

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

| Learning Objective | Knowledge | Comprehension | Application | Analysis | Synthesis | Evaluation |
|---|----------------|--|---|--|-----------|----------------|
| 1. Identify the features of managerial accounting and the functions of management. | | Q1-1 Q1-2 BE1-1 Q1-3 BE1-2 Q1-4 DI1-1 Q1-5 E1-1 Q1-6 | | | | |
| 2. Describe the classes of manufacturing costs and the differences between product and period costs. | Q1-10 | Q1-8 BE1-6 Q1-9 DI1-2 E1-2 E1-3 E1-5 E1-6 BE1-3 BE1-4 BE1-5 | E1-4 P1-1A E1-7 P1-2A E1-13 | | | |
| 3. Demonstrate how to compute cost of goods manufactured and prepare financial statements for a manufacturer. | | Q1-7 Q1-11 Q1-12 E1-15 | Q1-13 BE1-9 E1-13 Q1-14 BE1-10 E1-14 Q1-15 DI1-3 E1-16 E1-8 E1-17 P1-4A BE1-7 E1-12 BE1-8 | E1-9 E1-10 E1-11 P1-3A P1-5A | | |
| 4. Discuss trends in managerial accounting. | Q1-16 Q1-18 | Q1-17 Q1-25 Q1-19 BE1-11 Q1-20 DI1-4 Q1-21 E1-18 Q1-22 Q1-23 Q1-24 | | | | |
| Continuing Problems | | | CD1 WP1 | | | |
| Expand Your Critical Thinking | CT1-3 | CT1-6 | | CT1-1 CT1-2 CT1-4 | | CT1-5 CT1-7 |

ANSWERS TO QUESTIONS

1. (a) Disagree. Managerial accounting is a field of accounting that provides economic and financial information for managers and other internal users.
 (b) Joe is incorrect. Managerial accounting applies to all types of businesses—service, merchandising, and manufacturing.

LO1 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

2. (a) Financial accounting is concerned primarily with external users such as stockholders, creditors, and regulators. In contrast, managerial accounting is concerned primarily with internal users such as officers and managers.
 (b) Financial statements are the end product of financial accounting. The statements are prepared quarterly and annually. In managerial accounting, internal reports may be prepared as frequently as needed.
 (c) The purpose of financial accounting is to provide general-purpose information for all users. The purpose of managerial accounting is to provide special-purpose information for specific decisions.

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

3. Differences in the content of the reports are as follows:

| <u>Financial</u> | <u>Managerial</u> |
|---|--|
| <ul style="list-style-type: none"> • Pertains to business as a whole and is highly aggregated. • Limited to double-entry accounting and cost data. • Generally accepted accounting principles. | <ul style="list-style-type: none"> • Pertains to subunits of the business and may be very detailed. • Extends beyond double-entry accounting system to any relevant data. • Standard is relevance to decisions. |

In financial accounting, financial statements are verified annually through an independent audit by certified public accountants. There are no independent audits of internal reports issued by managerial accountants.

LO1 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

4. Linda should know that the management of an organization performs three broad functions:
 (1) **Planning** requires management to look ahead and to establish objectives.
 (2) **Directing** involves coordinating the diverse activities and human resources of a company to produce a smooth-running operation.
 (3) **Controlling** is the process of keeping the company's activities on track.

LO1 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

5. Disagree. Decision making is not a separate management function. Rather, decision making involves the exercise of good judgment in performing the three management functions explained in the answer to question four above.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

6. Employees with line positions are directly involved in the company's primary revenue generating operating activities. Examples would include plant managers and supervisors, and the vice president of operations. In contrast, employees with staff positions are not directly involved in revenue-generating operating activities, but rather serve in a support capacity to line employees. Examples include employees in finance, legal, and human resources.

LO1 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

Questions Chapter 1 (Continued)

7. The difference in balance sheets pertains to the presentation of inventories in the current asset section. In a merchandising company, only inventory is shown. In a manufacturing company, three inventory accounts are shown: finished goods, work in process, and raw materials.

LO3 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost management

8. Manufacturing costs are classified as either direct materials, direct labor, or manufacturing overhead.

LO2 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement IMA: Cost management

9. No, Mel is not correct. The distinction between direct and indirect materials is based on two criteria: (1) physical association and (2) the convenience of making the physical association. Materials which cannot be easily associated with the finished product are considered indirect materials.

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost management

10. Product costs, or inventoriable costs, are costs that are a necessary and integral part of producing the finished product. Period costs are costs that are identified with a specific time period rather than with a salable product. These costs relate to nonmanufacturing costs and therefore are not inventoriable costs.

LO2 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost management

11. A merchandising company has beginning inventory, cost of goods purchased, and ending inventory. A manufacturing company has beginning finished goods inventory, cost of goods manufactured, and ending finished goods inventory.

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement IMA: Cost management

12. (a) X = total cost of work in process.
(b) X = cost of goods manufactured.

LO3 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost management

| | |
|---|------------------|
| 13. Raw materials inventory, beginning | \$12,000 |
| Raw materials purchases | <u>170,000</u> |
| Total raw materials available for use..... | 182,000 |
| Raw materials inventory, ending..... | <u>(15,000)</u> |
| Direct materials used..... | <u>\$167,000</u> |

LO3 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost management

(\$12,000 + \$170,000 - \$15,000 = \$167,000)

(Beg. RM + RM purch. – End. RM = DM used)

| | |
|---------------------------------------|------------------|
| 14. Direct materials used..... | \$240,000 |
| Direct labor used | 220,000 |
| Total manufacturing overhead | <u>180,000</u> |
| Total manufacturing costs..... | <u>\$640,000</u> |

LO3 BT: AP Difficulty: Easy TOT: 2 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost management

(\$240,000 + \$220,000 + \$180,000 = \$640,000)

(DM used + DL used + Tot. MOH = Tot. mfg. costs)

| | |
|--|-----------|
| 15. (a) Total cost of work in process (\$26,000 + \$640,000)..... | \$666,000 |
| (b) Cost of goods manufactured (\$666,000 – \$32,000) | \$634,000 |

LO3 BT: AP Difficulty: Easy TOT: 2 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost management

[(a: \$26,000 + \$640,000 = \$666,000); (b: \$666,000 - \$32,000 = \$634,000)]

[(a: Beg. WIP + Tot. mfg. costs = Tot. cost of WIP); (b: Tot. cost of WIP – End. WIP = COGM)]

16. The order of listing is finished goods inventory, work in process inventory, and raw materials inventory.

LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement IMA: Cost management

Questions Chapter 1 (Continued)

- 17.** The products differ in how each are consumed by the customer. Services are consumed immediately; the product is not put into inventory. Meals at a restaurant are the best example where they are consumed immediately by the customer. There could be a long lead time before the product is consumed in a manufacturing environment.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost management

- 18.** The product costing techniques apply equally well to manufacturers and service companies. Each needs to keep track of the cost of production or services in order to know whether it is generating a profit. The techniques shown in this chapter, to accumulate manufacturing costs to determine manufacturing inventory, are equally useful for determining the cost of services.

LO4 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost management

- 19.** The value chain refers to all activities associated with providing a product or service. For a manufacturer, these include research and development, product design, acquisition of raw materials, production, sales and marketing, delivery, customer relations, and subsequent service.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Decision Modeling IMA: Strategic Planning

- 20.** An enterprise resource planning (ERP) system is an integrated software system that provides a comprehensive, centralized resource for information. Its primary benefits are that it replaces the many individual systems typically used for receivables, payables, inventory, human resources, etc. Also, it can be used to get information from, and provide information to, the company's customers and suppliers.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Decision Modeling IMA: Strategic Planning

- 21.** In a just-in-time inventory system, the company has no extra inventory stored. Consequently, if some units that are produced are defective, the company will not have enough units to deliver to customers.

LO4 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Decision Modeling IMA: Strategic Planning

- 22.** The balanced scorecard is called "balanced" because it strives to not over emphasize any one performance measure, but rather uses both financial and non-financial measures to evaluate all aspects of a company's operations in an integrated fashion.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Decision Modeling IMA: Strategic Planning

- 23.** Budgets are prepared by companies to provide future direction. Because the budget is also used as an evaluation tool, some managers try to game the budgeting process by underestimating their division's predicted performance so that it will be easier to meet their performance targets. On the other hand, if the budget is set at unattainable levels, managers sometimes take unethical actions to meet targets to receive higher compensation or in some cases to keep their jobs.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: Ethics AICPA PC: Professional Demeanor IMA: Business Applications

- 24.** CEOs and CFOs must now certify that financial statements give a fair presentation of the company's operating results and its financial condition and that the company maintains an adequate system of internal controls. In addition, the composition of the board of directors and audit committees receives more scrutiny, and penalties for misconduct have increased.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: Ethics AICPA FC: Measurement AICPA PC: Professional Demeanor IMA: FSA, Business Applications

- 25.** Activity-based costing is an approach used to allocate overhead based on each product's relative use of activities in making the product. Activity-based costing is beneficial because it results in more accurate product costing and in more careful scrutiny of all activities in the value chain.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Decision Modeling IMA: Cost management

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1-1

| | <u>Financial Accounting</u> | <u>Managerial Accounting</u> |
|----------------------|---|--|
| Primary users | External users | Internal users |
| Types of reports | Financial statements | Internal reports |
| Frequency of reports | Quarterly and annually | As frequently as needed |
| Purpose of reports | General-purpose | Special-purpose information for specific decisions |
| Content of reports | Generally accepted accounting principles | Relevance to decisions |
| Verification process | Annual audit by certified public accountant | No independent audits |

LO1 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-2

- (a) 1. Planning.
- (b) 2. Directing.
- (c) 3. Controlling.

LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-3

- (a) DM Frames and tires used in manufacturing bicycles.
- (b) DL Wages paid to production workers.
- (c) MO Insurance on factory equipment and machinery.
- (d) MO Depreciation on factory equipment.

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-4

- (a) Direct materials.
- (b) Direct materials.
- (c) Direct labor.
- (d) Manufacturing overhead.
- (e) Manufacturing overhead.
- (f) Direct materials.
- (g) Direct materials.
- (h) Manufacturing overhead.

LO2 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-5

- (a) Product.
- (b) Period.
- (c) Period.
- (d) Period.
- (e) Product.
- (f) Product.

LO2 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-6

| | Product Costs | | |
|-----|---------------------|-----------------|---------------------|
| | Direct Materials | Direct Labor | Factory Overhead |
| (a) | | | X |
| (b) | X | | |
| (c) | | | X |
| (d) | | X | |

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-7

| | | |
|------|-------------------------------------|------------------|
| (a) | Direct materials used..... | \$180,000 |
| | Direct labor..... | 209,000 |
| | Total manufacturing overhead..... | <u>208,000</u> |
| | Total manufacturing costs..... | <u>\$597,000</u> |
| | | |
| (b) | Beginning work in process | \$ 25,000 |
| | Total manufacturing costs | <u>597,000</u> |
| | Total cost of work in process | <u>\$622,000</u> |

BRIEF EXERCISE 1-7 (Cont'd)

(\$25,000 + \$597,000 = \$622,000)

(Beg. WIP + Tot. mfg. costs = Tot. cost in WIP)

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-8

ROLAND COMPANY Balance Sheet December 31, 2020

| | | | |
|-----------------------------------|--|---------------|-------------------------|
| Current assets | | | |
| Cash..... | | | \$ 62,000 |
| Accounts receivable..... | | | 200,000 |
| Inventories | | | |
| Finished goods..... | | \$91,000 | |
| Work in process | | 87,000 | |
| Raw materials..... | | <u>83,000</u> | 261,000 |
| Prepaid expenses | | | <u>38,000</u> |
| Total current assets | | | <u>\$561,000</u> |

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting IMA: Cost Management

[\$62,000 + \$200,000 + (\$91,000 + \$87,000 + \$83,000) + \$38,000 = \$561,000]

[Cash + Accts. rec. + (Fin. gds. + WIP + Raw mat.) + Prepd. exp. = Tot. current assets]

BRIEF EXERCISE 1-9

| | <u>Direct Materials Used</u> | <u>Direct Labor Used</u> | <u>Factory Overhead</u> | <u>Total Manufacturing Costs</u> |
|-----|----------------------------------|------------------------------|-----------------------------|--|
| (1) | | | | \$151,000 |
| (2) | \$81,000 | | | |
| (3) | | \$144,000 | | |

LO3 BT: AP Difficulty: Easy TOT: 2 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-10

| | <u>Total Manufacturing Costs</u> | <u>Work in Process (January 1)</u> | <u>Work in Process (December 31)</u> | <u>Cost of Goods Manufactured</u> |
|-----|--|--|--|---------------------------------------|
| (1) | \$151,000* | | | \$189,000 |
| (2) | | \$133,000 | | |
| (3) | | | \$58,000 | |

*\$40,000 + \$61,000 + \$50,000 (data from BE 1-9)

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

BRIEF EXERCISE 1-11

One implication of SOX was to clarify top management's responsibility for the company's financial statements. CEOs and CFOs must certify that financial statements give a fair presentation of the company's operating results and its financial condition. In addition, top managers must certify that the company maintains an adequate system of internal controls to safeguard the company's assets and ensure accurate financial reports. Also, more attention is now paid to the composition of the company's board of directors. In particular, the audit committee of the board of directors must be comprised entirely of independent members (that is, non-employees) and must contain at least one financial expert. Finally, to increase the likelihood of compliance with these and other new rules, the penalties for misconduct were substantially increased.

LO4 BT: C Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA PC: Professional Demeanor, Communication
IMA: FSA, Business Applications

SOLUTIONS FOR DO IT! EXERCISES

DO IT! 1-1

1. **False**
2. **False**
3. **False**
4. **True**

LO1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

DO IT! 1-2

Period costs:

Advertising

Salaries of sales representatives

Product costs:

Blank CDs (DM)

Depreciation of CD image burner (MO)

Salary of factory manager (MO)

Factory supplies used (MO)

Paper inserts for CD cases (DM)

CD plastic cases (DM)

Salaries of factory maintenance employees (MO)

Salaries of employees who burn music onto CDs (DL)

LO2 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

DO IT! 1-3

TOMLIN COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended April 30

| | | |
|---|------------------|-------------------------|
| Work in process, April 1 | | \$ 5,000 |
| Direct materials | | |
| Raw materials, April 1 | \$ 10,000 | |
| Raw materials purchases | 98,000 | |
| Total raw materials available for use..... | 108,000 | |
| Less: Raw materials, April 30..... | 14,000 | |
| Direct materials used..... | \$ 94,000 | |
| Direct labor | 80,000 | |
| Manufacturing overhead | 160,000 | |
| Total manufacturing costs..... | | <u>334,000</u> |
| Total cost of work in process | | 339,000 |
| Less: Work in process, April 30 | | <u>3,500</u> |
| Cost of goods manufactured..... | | <u>\$335,500</u> |

LO3 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Cost Management
 [\$5,000 + ((\$10,000 + \$98,000 - \$14,000) + \$80,000 + \$160,000) - \$3,500 = \$335,500]
 [Beg. WIP + ((Beg. raw mat. + Raw mat. purch. – End. raw mat.) + DL + MOH) – End. WIP = COGM]

DO IT! 1-4

1. f
2. a
3. c
4. h
5. d
6. e
7. b
8. g

LO4 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Decision Modeling IMA: Cost Management

SOLUTIONS TO EXERCISES

EXERCISE 1-1

1. **False.** Financial accounting focuses on providing information to *external* users.
2. **False.** Line positions are directly involved in the company's primary revenue-generating operating activities.
3. **False.** Preparation of budgets is part of *managerial* accounting.
4. **False.** Managerial accounting applies to *service*, merchandising and manufacturing companies.
5. **True.**
6. **False.** Managerial accounting reports are prepared as *frequently as needed*.
7. **True.**
8. **True.**
9. **False.** *Financial* accounting reports must comply with generally accepted accounting principles.
10. **False.** The company treasurer reports directly to the vice president of finance/chief financial officer.

LO1 BT: C Difficulty: Easy TOT: 6 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-2

1. **(b) Direct labor.***
2. **(c) Manufacturing overhead.**
3. **(c) Manufacturing overhead.**
4. **(c) Manufacturing overhead.**
5. **(a) Direct materials.**
6. **(b) Direct labor.**
7. **(c) Manufacturing overhead.**
8. **(c) Manufacturing overhead.**
9. **(c) Manufacturing overhead.**
10. **(a) Direct materials.**

***or sometimes (c), depending on the circumstances**

LO2 BT: C Difficulty: Easy TOT: 6 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-3

| | | | |
|--|--------|-----------------------------------|--------|
| (a) Bicycle components | DM | Advertising expense | Period |
| Depreciation on plant | MOH | Property taxes on plant..... | MOH |
| Property taxes on store.... | Period | Delivery expense | Period |
| Labor costs of assembly line workers..... | DL | Sales commissions | Period |
| Factory supplies used..... | MOH | Salaries paid to sales clerks.... | Period |

- (b) Product costs are recorded as a part of the cost of inventory because they are an integral part of the cost of producing the bicycles. Product costs are not expensed until the goods are sold. Period costs are recognized as an expense when incurred.

LO2 BT: C Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-4

| | |
|---|------------------|
| (a) Factory utilities | \$ 15,500 |
| Depreciation on factory equipment..... | 12,650 |
| Indirect factory labor | 48,900 |
| Indirect materials..... | 80,800 |
| Factory manager's salary | 8,000 |
| Property taxes on factory building..... | 2,500 |
| Factory repairs | 2,000 |
| Manufacturing overhead | <u>\$170,350</u> |

(\$15,500 + \$12,650 + \$48,900 + \$80,800 + \$8,000 + \$2,500 + \$2,000 = \$170,350)

(Fact. util. + Depr. on fact. equip. + Ind. fact. labor + Ind. mat. + Fact. mgr's. sal. + Prop. tax. on fact. bldg.. + Fact. repairs = MOH)

| | |
|------------------------------|------------------|
| (b) Direct materials | \$137,600 |
| Direct labor | 69,100 |
| Manufacturing overhead | 170,350 |
| Product costs | <u>\$377,050</u> |

| | |
|--|------------------|
| (c) Depreciation on delivery trucks..... | \$ 3,800 |
| Sales salaries | 46,400 |
| Repairs to office equipment..... | 1,300 |
| Advertising | 15,000 |
| Office supplies used..... | 2,640 |
| Period costs | <u>\$ 69,140</u> |

(\$3,800 + \$46,400 + \$1,300 + \$15,000 + \$2,640 = \$69,140)

(Depr. on del. trks. + Sales sal. + Repairs on off. equip. + Advert. + Off. sup. used = Period costs)

LO2 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-5

- | | | | | |
|--------|--------|---------|--------|---------|
| 1. (c) | 3. (a) | 5. (b)* | 7. (a) | 9. (c) |
| 2. (c) | 4. (c) | 6. (d) | 8. (b) | 10. (c) |

***or sometimes (c), depending on the circumstances.**

LO2 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-6

1. (b)
2. (c)
3. (a)
4. (c) (Only for the portion that applies to the x-ray department)
5. (c)
6. (c)
7. (c)
8. (c)
9. (c)
10. (c) (Only for the portion that applies to the x-ray department)

LO2, 4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-7

(a) Delivery service (product) costs:

| | |
|------------------------------------|------------------------|
| Indirect materials | \$ 6,400 |
| Depreciation on delivery equipment | 11,200 |
| Dispatcher's salary | 5,000 |
| Gas and oil for delivery trucks | 2,200 |
| Drivers' salaries | 16,000 |
| Delivery equipment repairs | 300 |
| Total | <u>\$41,100</u> |

(\$6,400 + \$11,200 + \$5,000 + \$2,200 + \$16,000 + \$300 = \$41,100)
(Ind. mat. + Depr. on del. equip. + Dispatch. sal. + Gas & oil for del. trks. + Drivers' sal. + Del. equip. repairs = Tot. product costs)

(b) Period costs:

| | |
|-----------------------------------|------------------------|
| Property taxes on office building | \$ 870 |
| CEO's salary | 12,000 |
| Advertising | 4,600 |
| Office supplies | 650 |
| Office utilities | 990 |
| Repairs on office equipment | 180 |
| Total | <u>\$19,290</u> |

LO2 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-8

| | | |
|--|----------------------|-------------------------|
| (a) Work in process, 1/1 | | \$ 12,000 |
| Direct materials used | \$120,000 | |
| Direct labor | 110,000 | |
| Manufacturing overhead | | |
| Depreciation on plant..... | \$60,000 | |
| Factory supplies used..... | 23,000 | |
| Property taxes on plant | <u>14,000</u> | |
| Total manufacturing overhead | <u>97,000</u> | |
| Total manufacturing costs | | <u>327,000</u> |
| Total cost of work in process | | 339,000 |
| Less: ending work in process | | <u>15,500</u> |
| Cost of goods manufactured | | <u>\$323,500</u> |

[\$12,000 + ((\$120,000 + \$110,000 + (\$60,000 + \$23,000 + \$14,000)) - \$15,500 = \$323,500]

[Beg. WIP + ((DM used + DL + (Depr. on plant + Fact. sup. used + Prop. tax on plant)) - End. WIP = COGM]

| | | |
|---|--|-------------------------|
| (b) Finished goods, 1/1 | | \$ 60,000 |
| Cost of goods manufactured | | <u>323,500</u> |
| Cost of goods available for sale | | 383,500 |
| Less: Finished goods, 12/31 | | <u>45,600</u> |
| Cost of goods sold | | <u>\$337,900</u> |

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting IMA: Cost management

EXERCISE 1-9

Total raw materials available for use:

| | |
|--|-------------------------|
| Direct materials used | \$180,000 |
| Add: Raw materials inventory (12/31) | <u>22,500</u> |
| Total raw materials available for use | <u>\$202,500</u> |

(\$180,000 + \$22,500 = \$202,500)

(DM used + End. raw mat. = Tot. raw mat. avail. for use)

Raw materials inventory (1/1):

Total raw materials available for use:

| | |
|--|-------------------------|
| Direct materials used | \$180,000 |
| Add: Raw materials inventory (12/31) | <u>22,500</u> |
| Total raw materials available for use | 202,500 |
| Less: Raw materials purchases | <u>158,000</u> |
| Raw materials inventory (1/1) | <u>\$ 44,500</u> |

(\$180,000 + \$22,500 - \$158,000 = \$44,500)

(DM used + End. raw mat. - Raw mat. purch. = Beg. raw mat.)

EXERCISE 1-9 (Continued)

Total cost of work in process:

| | |
|-------------------------------------|------------------|
| Cost of goods manufactured | \$540,000 |
| Add: Work in process (12/31) | <u>81,000</u> |
| Total cost of work in process | <u>\$621,000</u> |

Total manufacturing costs:

| | |
|-------------------------------------|------------------|
| Total cost of work in process | \$621,000 |
| Less: Work in process (1/1) | <u>210,000</u> |
| Total manufacturing costs | <u>\$411,000</u> |

Direct labor:

| | | |
|---------------------------------|----------------|------------------|
| Total manufacturing costs | | \$411,000 |
| Less: Total overhead | \$122,000 | |
| Direct materials used | <u>180,000</u> | <u>302,000</u> |
| Direct labor | | <u>\$109,000</u> |

[\$411,000 – (\$122,000 + \$180,000) = \$109,000]

[Tot. mfg. costs – (Tot. OH + DM used) = DL]

LO3 BT: AN Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-10

Case A

$$A + \$57,000 + \$46,500 = \$195,650$$

$$A = \$92,150$$

$$\$252,500 - \$11,000 = F$$

$$F = \$241,500$$

$$\$195,650 + B = \$221,500$$

$$B = \$25,850$$

Case C

$$\$130,000 + G + \$102,000 = \$253,700$$

$$G = \$21,700$$

$$\$221,500 - C = \$185,275$$

$$C = \$36,225$$

$$\$253,700 + H = \$337,000$$

$$H = \$83,300$$

Case B

$$\$68,400 + \$86,000 + \$81,600 = D$$

$$D = \$236,000$$

$$\$337,000 - \$70,000 = I$$

$$I = \$267,000$$

$$\$236,000 + \$16,500 = E$$

$$E = \$252,500$$

Additional explanation to EXERCISE 1-10 solution:

Case A

| | | |
|--|-----------------|-------------------------|
| (a) Total manufacturing costs | | \$195,650 |
| Less: Manufacturing overhead | \$46,500 | |
| Direct labor | 57,000 | 103,500 |
| Direct materials used..... | | <u>\$ 92,150</u> |

[\$195,650 – (\$46,500 + \$57,000) = \$92,150]

[Tot. mfg. costs – (MOH + DL) = DM used]

| | | |
|--|--|-------------------------|
| (b) Total cost of work in process | | \$221,500 |
| Less: Total manufacturing costs | | 195,650 |
| Work in process (1/1/20)..... | | <u>\$ 25,850</u> |

| | | |
|--|--|-------------------------|
| (c) Total cost of work in process | | \$221,500 |
| Less: Cost of goods manufactured | | 185,275 |
| Work in process (12/31/20)..... | | <u>\$ 36,225</u> |

Case B

| | | |
|--|--|-------------------------|
| (d) Direct materials used..... | | \$ 68,400 |
| Direct labor..... | | 86,000 |
| Manufacturing overhead | | 81,600 |
| Total manufacturing costs | | <u>\$236,000</u> |

(\$68,400 + \$86,000 + \$81,600 = \$236,000)

(DM used + DL + MOH = Tot. mfg. costs)

| | | |
|--|--|-------------------------|
| (e) Total manufacturing costs | | \$236,000 |
| Work in process (1/1/20)..... | | 16,500 |
| Total cost of work in process | | <u>\$252,500</u> |

| | | |
|--|--|-------------------------|
| (f) Total cost of work in process | | \$252,500 |
| Less: Work in process (12/31/20)..... | | 11,000 |
| Cost of goods manufactured | | <u>\$241,500</u> |

Case C

| | | |
|--|------------------|-------------------------|
| (g) Total manufacturing costs | | \$253,700 |
| Less: Manufacturing overhead | \$102,000 | |
| Direct materials used | 130,000 | 232,000 |
| Direct labor..... | | <u>\$ 21,700</u> |

[\$253,700 – (\$102,000 + \$130,000) = \$21,700]

[Tot. mfg. costs – (MOH + DM used) = DL]

EXERCISE 1-10 (Continued)

| | |
|---|------------------|
| (h) Total cost of work in process | \$337,000 |
| Less: Total manufacturing costs..... | <u>253,700</u> |
| Work in process (1/1/20)..... | <u>\$ 83,300</u> |
| | |
| (i) Total cost of work in process | \$337,000 |
| Less: Work in process (12/31/20) | <u>70,000</u> |
| Cost of goods manufactured | <u>\$267,000</u> |

LO3 BT: AN Difficulty: Easy TOT: 12 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-11

(a) (a) $\$117,000 + \$140,000 + \$87,000 = \$344,000$

(b) $\$344,000 + \$33,000 - \$360,000 = \$17,000$

(\$344,000 + \$33,000 - \$360,000 = \$17,000)
(Tot. mfg. costs + Beg. WIP - COGM = End. WIP)

(c) $\$450,000 - (\$200,000 + \$132,000) = \$118,000$

(d) $\$40,000 + \$470,000 - \$450,000 = \$60,000$

(\$40,000 + \$470,000 - \$450,000 = \$60,000)
(End. WIP + COGM - Tot. mfg. costs = Beg. WIP)

(e) $\$265,000 - (\$80,000 + \$100,000) = \$85,000$

(f) $\$265,000 + \$60,000 - \$80,000 = \$245,000$

(\$265,000 + \$60,000 - \$80,000 = \$245,000)
(Tot. mfg. costs + Beg. WIP - End. WIP = COGM)

(g) $\$288,000 - (\$70,000 + \$75,000) = \$143,000$

(h) $\$288,000 + \$45,000 - \$270,000 = \$63,000$

EXERCISE 1-11 (Continued)

(b) HORIZON COMPANY
Cost of Goods Manufactured Schedule
For the Year Ended December 31, 2020

| | | |
|--|---------------|-------------------------|
| Work in process, January 1 | | \$ 33,000 |
| Direct materials | \$117,000 | |
| Direct labor | 140,000 | |
| Manufacturing overhead | <u>87,000</u> | |
| Total manufacturing costs..... | | <u>344,000</u> |
| Total cost of work in process | | 377,000 |
| Less: Work in process inventory, | | |
| December 31 | | <u>17,000</u> |
| Cost of goods manufactured | | <u>\$360,000</u> |

$[(\$33,000 + (\$117,000 + \$140,000 + \$87,000)) - \$17,000 = \$360,000]$

$[(\text{Beg. WIP} + (\text{DM} + \text{DL} + \text{MOH})) - \text{End. WIP} = \text{COGM}]$

LO3 BT: AN Difficulty: Easy TOT: 12 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-12

(a) CEPEDA CORPORATION
Cost of Goods Manufactured Schedule
For the Month Ended June 30, 2020

| | | |
|--|------------|------------------------|
| Work in process, June 1 | | \$ 3,000 |
| Direct materials used..... | \$20,000 | |
| Direct labor | 40,000 | |
| Manufacturing overhead | | |
| Indirect labor | \$4,500 | |
| Factory manager's salary | 3,000 | |
| Indirect materials..... | 2,200 | |
| Maintenance, factory equipment..... | 1,800 | |
| Depreciation, factory equipment..... | 1,400 | |
| Factory utilities..... | <u>400</u> | |
| Total manufacturing overhead | | <u>13,300</u> |
| Total manufacturing costs | | <u>73,300</u> |
| Total cost of work in process | | 76,300 |
| Less: Work in process, June 30..... | | <u>3,800</u> |
| Cost of goods manufactured | | <u>\$72,500</u> |

$[(\$3,000 + (\$20,000 + \$40,000 + (\$4,500 + \$3,000 + \$2,200 + \$1,800 + \$1,400 + \$400))) - \$3,800 = \$72,500]$

$[(\text{Beg. WIP} + (\text{DM used} + \text{DL} + (\text{Ind. labor} + \text{Fact. mgrs. sal.} + \text{Ind. mat.} + \text{Maint., fact. equip.} + \text{Depr., fact. equip.} + \text{Fact. util.}))) - \text{End. WIP} = \text{COGM}]$

EXERCISE 1-12 (Continued)

(b)

CEPEDA CORPORATION
Income Statement (Partial)
For the Month Ended June 30, 2020

| | | |
|--|---------------|------------------------|
| Sales revenue | | \$92,100 |
| Cost of goods sold | | |
| Finished goods inventory, June 1 | \$ 5,000 | |
| Cost of goods manufactured [from (a)] | <u>72,500</u> | |
| Cost of goods available for sale | 77,500 | |
| Less: Finished goods inventory, June 30 | <u>7,500</u> | |
| Cost of goods sold | | <u>70,000</u> |
| Gross profit | | <u>\$22,100</u> |

LO3 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-13

(a)

WASHINGTON CONSULTING
Schedule of Cost of Contract Services Performed
For the Month Ended August 31, 2020

| | | |
|--|------------|------------------------|
| Supplies used (direct materials)..... | | \$ 1,700 |
| Salaries of professionals (direct labor)..... | | 15,600 |
| Service overhead: | | |
| Utilities for contract operations | \$1,400 | |
| Contract equipment depreciation | 900 | |
| Insurance on contract operations | 800 | |
| Janitorial services for professional offices | <u>700</u> | |
| Total overhead | | <u>3,800</u> |
| Cost of contract services provided | | <u>\$21,100</u> |

[\$1,700 + \$15,600 + (\$1,400 + \$900 + \$800 + \$700) = \$21,100]

[Supp. used + Sal. of profs. + (Util. on contract oper. + Contract equip. depr. + Ins. on contract oper. + Jan. srvs. for prof. off.) = \$21,100]

(b) The costs not included in the cost of contract services provided would all be classified as period costs. As such, they would be reported on the income statement under administrative expenses.

LO3 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-14

| | | | |
|---|------------------|------------------|-----------------------|
| (a) Work in process, 1/1 | | | \$ 13,500 |
| Direct materials | | | |
| Materials inventory, 1/1 | \$ 21,000 | | |
| Materials purchased | 150,000 | | |
| Materials available for use | 171,000 | | |
| Less: Materials inventory, 12/31 | 30,000 | | |
| Direct materials used | | \$141,000 | |
| Direct labor | | 220,000 | |
| Manufacturing overhead | | 180,000 | |
| Total manufacturing costs | | | 541,000 |
| Total cost of work in process | | | 554,500 |
| Less: Work in process, 12/31 | | | 17,200 |
| Cost of goods manufactured | | | <u>537,300</u> |

[\$13,500 + ((\$21,000 + \$150,000 - \$30,000) + \$220,000 + \$180,000) - \$17,200 = \$537,300]

[Beg. WIP + ((Beg. DM + DM purch. - End. DM) + DL + MOH) - End. WIP = COGM]

AIKMAN COMPANY
Income Statement (Partial)
For the Year Ended December 31, 2020

| | | | |
|--|------------------|--|-----------------------|
| (b) Sales revenue | | | \$910,000 |
| Cost of goods sold | | | |
| Finished goods, 1/1 | \$ 27,000 | | |
| Cost of goods manufactured | 537,300 | | |
| Cost of goods available for sale | 564,300 | | |
| Less: Finished goods, 12/31 | 21,000 | | |
| Cost of goods sold | | | 543,300 |
| Gross profit | | | <u>366,700</u> |

[\$910,000 - (\$27,000 + \$537,300 - \$21,000) = \$366,700]

[Sales rev. - (Beg. FG + COGM - End. FG) = GP]

AIKMAN COMPANY
(Partial) Balance Sheet
December 31, 2020

| | | | |
|------------------------------|-----------------|--|-----------------|
| (c) Current assets | | | |
| Inventories | | | |
| Finished goods | \$21,000 | | |
| Work in process | 17,200 | | |
| Raw materials | 30,000 | | \$68,200 |

EXERCISE 1-14 (Continued)

- (d) In a merchandising company's income statement, the only difference would be in the computation of cost of goods sold. Beginning and ending finished goods would be replaced by beginning and ending inventory, and cost of goods manufactured would be replaced by purchases. In a merchandising company's balance sheet, there would be one inventory account (inventory) instead of three.

LO3 BT: AP Difficulty: Easy TOT: 15 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-15

- | | |
|-------------|--------------|
| 1. (a) | 9. (a) |
| 2. (a) | 10. (a), (b) |
| 3. (a), (c) | 11. (b) |
| 4. (b) | 12. (b) |
| 5. (a) | 13. (a) |
| 6. (a) | 14. (a) |
| 7. (a) | 15. (a) |
| 8. (b), (c) | 16. (a) |

LO3 BT: C Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Reporting IMA: Reporting

EXERCISE 1-16

(a) **ROBERTS COMPANY**
Cost of Goods Manufactured Schedule
For the Month Ended June 30, 2020

| | | |
|--|---------------|-------------------------|
| Work in process inventory, June 1 | | \$ 5,000 |
| Direct materials | | |
| Raw materials inventory, June 1 | \$ 9,000 | |
| Raw materials purchases..... | <u>54,000</u> | |
| Total raw materials available for use | 63,000 | |
| Less: Raw materials inventory, June 30.... | <u>13,100</u> | |
| Direct materials used | | \$49,900 |
| Direct labor..... | | 47,000 |
| Manufacturing overhead | | |
| Indirect labor..... | 5,500 | |
| Factory insurance..... | 4,000 | |
| Machinery depreciation..... | 4,000 | |
| Factory utilities | 3,100 | |
| Machinery repairs..... | 1,800 | |
| Miscellaneous factory costs | <u>1,500</u> | |
| Total manufacturing overhead | | <u>19,900</u> |
| Total manufacturing costs | | <u>116,800</u> |
| Total cost of work in process | | 121,800 |
| Less: Work in process inventory, June 30..... | | <u>7,000</u> |
| Cost of goods manufactured | | <u>\$114,800</u> |

[\$5,000 + ((\$9,000 + \$54,000 - \$13,100) + \$47,000 + (\$5,500 + \$4,000 + \$4,000 + \$3,100 + \$1,800 + \$1,500)) - \$7,000 = \$114,800]

[Beg. WIP + ((Beg. raw mat. + Raw mat. purch. - End. raw mat.) + DL + (Ind. labor + Fact. ins. + Mach. depr. + Fact. util. + Mach. repairs + Misc. fact. costs)) - End. WIP = COGM]

(b) **ROBERTS COMPANY**
(Partial) Balance Sheet
June 30, 2020

| | | |
|-----------------------|---------------|-----------------|
| Current assets | | |
| Inventories | | |
| Finished goods | \$ 8,000 | |
| Work in process..... | 7,000 | |
| Raw materials | <u>13,100</u> | \$28,100 |

LO BT: AP Difficulty: Easy TOT: 8 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 1-17

| | |
|---------------------------------------|--|
| (a) Raw Materials account: | $(5,000 - 4,650) \times \$15 = \$5,250$ |
| Work in Process account: | $(4,600 \times 10\%) \times \$15 = \$6,900$ |
| Finished Goods account: | $(4,600 \times 90\% \times 30\%) \times \$15 = \$18,630$ |
| Cost of Goods Sold account: | $(4,600 \times 90\% \times 70\%) \times \$15 = \$43,470$ |
| Selling Expenses account: | $50 \times \$15 = \750 |
| Proof of cost of head lamps allocated | $(5,000 \times \$15 = \$75,000)$ |

| | |
|--------------------|-----------------|
| Raw materials | \$ 5,250 |
| Work in process | 6,900 |
| Finished goods | 18,630 |
| Cost of goods sold | 43,470 |
| Selling expenses | <u>750</u> |
| Total | <u>\$75,000</u> |

[(Raw mat.: $(5,000 - 4,650) \times \$15 = \$5,250$); (WIP: $4,600 \times 10\% \times \$15 = \$6,900$); (Fin. gds.: $(4,600 \times 90\% \times 30\%) \times \$15 = \$18,630$); (CGS: $(4,600 \times 90\% \times 70\%) \times \$15 = \$43,470$); (Sell. exp.: $50 \times \$15 = \750)]

[(Raw mat.: (Lamps purch. – Lamps withdrawn) x Unit cost = Acct. bal.); (WIP: (Lamps issued to production x % still in production) x Unit cost = Acct. bal.); (Fin. Gds.: (Lamps in production x % completed x % not sold) x Unit cost = Acct. bal.); (CGS: Lamps in production x % completed x % sold) x Unit cost = Acct. bal.); (Sell. exp.: Lamps in sales staff cars x Unit cost = Acct. bal.)]

(b) To: Chief Accountant
From: Student
Subject: Statement Presentation of Accounts

Two accounts will appear in the income statement. Cost of Goods Sold will be deducted from net sales in determining gross profit. Selling expenses will be shown under operating expenses and will be deducted from gross profit in determining net income. Sometimes, the calculation for Cost of Goods Sold is shown on the income statement. In these cases, the balance in Finished Goods inventory would also be shown on the income statement.

The other accounts associated with the head lamps are inventory accounts which contain end-of-period balances. Thus, they will be reported under inventories in the current assets section of the balance sheet in the following order: finished goods, work in process, and raw materials.

LO3 BT: AP Difficulty: Moderate TOT: 15 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

EXERCISE 1-18

- (a) 3. **Balanced scorecard**
- (b) 4. **Value chain**
- (c) 2. **Just-in-time inventory**
- (d) 1. **Activity-based costing**

LO4 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Decision Modeling IMA: Strategic Planning

PROBLEM 1-1A

| (a) Cost Item | Product Costs | | | Period Costs |
|------------------------------------|------------------|-----------------|------------------------|-----------------|
| | Direct Materials | Direct Labor | Manufacturing Overhead | |
| Rent on factory equipment | | | \$11,000 | |
| Insurance on factory building | | | 1,500 | |
| Raw materials | \$75,000 | | | |
| Utility costs for factory | | | 900 | |
| Supplies for general office | | | | \$ 300 |
| Wages for assembly line workers | | \$58,000 | | |
| Depreciation on office equipment | | | | 800 |
| Miscellaneous materials | | | 1,100 | |
| Factory manager's salary | | | 5,700 | |
| Property taxes on factory building | | | 400 | |
| Advertising for helmets | | | | 14,000 |
| Sales commissions | | | | 10,000 |
| Depreciation on factory building | | | 1,500 | |
| | <u>\$75,000</u> | <u>\$58,000</u> | <u>\$22,100</u> | <u>\$25,100</u> |

[(MOH: \$11,000 + \$1,500 + \$900 + \$1,100 + \$5,700 + \$400 + \$1,500 = \$22,100); (Period costs: \$300 + \$800 + \$14,000 + \$10,000 = \$25,100)]

[(MOH: Rent, fact. equip. + Ins., fact. bldg. + Fact. util. + Misc. mat. + Fact. mgrs.. sal. + Prop. tax, fact. bldg.. + Depr., fact. bldg. = Tot.); (Period costs: Supp., gen. off. + Depr., off. equip. + Advert. for helmets + Sales comm. = Tot.)]

| (b) Total production costs | |
|----------------------------|------------------|
| Direct materials | \$ 75,000 |
| Direct labor | 58,000 |
| Manufacturing overhead | <u>22,100</u> |
| Total production cost | <u>\$155,100</u> |

Production cost per helmet = \$155,100/10,000 = \$15.51.

LO2 BT: AP Difficulty: Easy TOT: 25 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

| (a) Cost Item | Product Costs | | | Period Costs |
|--|------------------|-----------------|------------------------|----------------|
| | Direct Materials | Direct Labor | Manufacturing Overhead | |
| Raw materials (1) | \$111,000 | | | |
| Wages for workers (2) | | \$90,000 | | |
| Rent on equipment | | | \$ 4,900 | |
| Indirect materials (3) | | | 7,500 | |
| Factory supervisor's salary | | | 3,000 | |
| Janitorial costs | | | 1,300 | |
| Advertising | | | | \$9,500 |
| Depreciation on factory building (4) | | | 650 | |
| Property taxes on factory building (5) | | | 750 | |
| | <u>\$111,000</u> | <u>\$90,000</u> | <u>\$18,100</u> | <u>\$9,500</u> |

(1) \$74 X 1,500 = \$111,000.

(2) \$12 X 5 X 1,500 = \$90,000.

(3) \$5 X 1,500 = \$7,500.

(4) \$7,800/12 = \$650.

(5) \$9,000/12 = \$750.

[(MOH: \$4,900 + (\$5 x 1,500) + \$3,000 + \$1,300 + (\$7,800/12) + (\$9,000/12) = \$18,100]; (Period costs: \$9,500)]

[(MOH: Rent, equip. + (Ind. mat. cost/system x No. systems) + Fact. super. sal. + Jan. costs + (Ann. depr./Mos. in a yr.) + (Ann. prop.tax./Mos. in a yr.) = Tot.]; (Period costs: Advert.)]

(b) Total production costs

| | |
|------------------------------|-------------------------|
| Direct materials | \$111,000 |
| Direct labor | 90,000 |
| Manufacturing overhead | <u>18,100</u> |
| Total production cost | <u>\$219,100</u> |

Production cost per system = \$219,100/1,500 = \$146.07. (rounded)

LO2 BT: AP Difficulty: Easy TOT: 25 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management

PROBLEM 1-2A

PROBLEM 1-3A

(a) Case 1

$$A = \$9,600 + \$5,000 + \$8,000 = \$22,600$$

$$\$22,600 + \$1,000 - B = \$17,000$$

$$B = \$22,600 + \$1,000 - \$17,000 = \$6,600$$

$$\$17,000 + C = \$22,000$$

$$C = \$22,000 - \$17,000 = \$5,000$$

$$D = \$22,000 - \$3,400 = \$18,600$$

$$E = (\$24,500 - \$2,500) - \$18,600 = \$3,400$$

$$F = \$3,400 - \$2,500 = \$900$$

[(B: $\$22,600 + \$1,000 - \$17,000 = \$6,600$); (E: $(\$24,500 - \$2,500) - \$18,600 = \$3,400$)]

[(B: Tot. mfg. costs + Beg. WIP - COGM = End. WIP); (E: (Sales rev. - sales disc.) - CGS = GP)]

Case 2

$$G + \$8,000 + \$4,000 = \$16,000$$

$$G = \$16,000 - \$8,000 - \$4,000 = \$4,000$$

$$\$16,000 + H - \$3,000 = \$24,000$$

$$H = \$24,000 + \$3,000 - \$16,000 = \$11,000$$

$$(I - \$1,400) - K = \$7,000$$

$$(I - \$1,400) - \$24,800 = \$7,000$$

$$I = \$1,400 + \$24,800 + \$7,000 = \$33,200$$

(Note: Item I can only be solved after item K is solved.)

$$J = \$24,000 + \$3,300 = \$27,300$$

$$K = \$27,300 - \$2,500 = \$24,800$$

$$\$7,000 - L = \$5,000$$

$$L = \$2,000$$

PROBLEM 1-3A (Continued)

[(H: \$24,000 + \$3,000 - \$16,000 = \$11,000); (I: \$1,400 + \$24,800 + \$7,000 = \$33,200); (K: \$27,300 - \$2,500 = \$24,800)]

[(H: COGM + End. WIP – Tot. mfg. costs = Beg. WIP); (I: Sales disc. + CGS + GP = Sales rev.); (K: Gds. avail. for sale – End. fin. gds. = CGS)]

**(b) CASE 1
Cost of Goods Manufactured Schedule**

| | | |
|--|---------------------|-------------------------------|
| Work in process, beginning | | \$ 1,000 |
| Direct materials | \$9,600 | |
| Direct labor | 5,000 | |
| Manufacturing overhead | <u>8,000</u> | |
| Total manufacturing costs..... | | <u>22,600</u> |
| Total cost of work in process | | 23,600 |
| Less: Work in process, ending | | <u>6,600</u> |
| Cost of goods manufactured | | <u><u>\$17,000</u></u> |

**(c) CASE 1
Income Statement**

| | | |
|--|----------------------|-----------------------------|
| Sales revenue..... | \$24,500 | |
| Less: Sales discounts | <u>2,500</u> | |
| Net sales | | \$22,000 |
| Cost of goods sold | | |
| Finished goods inventory, beginning | 5,000 | |
| Cost of goods manufactured..... | <u>17,000</u> | |
| Cost of goods available for sale..... | 22,000 | |
| Less: Finished goods inventory, ending | <u>3,400</u> | |
| Cost of goods sold | | <u>18,600</u> |
| Gross profit | | 3,400 |
| Operating expenses..... | | <u>2,500</u> |
| Net income | | <u><u>\$ 900</u></u> |

[((\$24,500 - \$2,500) – (\$5,000 + \$17,000 - \$3,400) - \$2,500 = \$900]

[(Sales rev. – Sales disc.) – (Beg. fin. gds. + COGM – End. fin. gds.) – Oper. exp. = Net inc.]

PROBLEM 1-3A (Continued)

**CASE 1
(Partial) Balance Sheet**

| | | |
|-----------------------------------|-------------------|------------------------|
| Current assets | | |
| Cash | | \$ 3,000 |
| Receivables (net)..... | | 15,000 |
| Inventories | | |
| Finished goods | \$3,400 | |
| Work in process..... | 6,600 | |
| Raw materials | <u>600</u> | 10,600 |
| Prepaid expenses..... | | <u>400</u> |
| Total current assets | | <u>\$29,000</u> |

LO3 BT: AN Difficulty: Moderate TOT: 40 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

PROBLEM 1-4A

(a) **CLARKSON COMPANY**
Cost of Goods Manufactured Schedule
For the Year Ended June 30, 2020

| | | |
|---|------------------|------------------|
| Work in process, July 1, 2019 | | \$ 19,800 |
| Direct materials | | |
| Raw materials inventory, | | |
| July 1, 2019 | \$ 48,000 | |
| Raw materials purchases | 96,400 | |
| Total raw materials available | | |
| for use | 144,400 | |
| Less: Raw materials inventory, | | |
| June 30, 2020 | 39,600 | |
| Direct materials used | | \$104,800 |
| Direct labor | | 139,250 |
| Manufacturing overhead | | |
| Plant manager's salary | 58,000 | |
| Factory utilities..... | 27,600 | |
| Indirect labor | 24,460 | |
| Factory machinery depreciation ... | 16,000 | |
| Factory property taxes..... | 9,600 | |
| Factory insurance | 4,600 | |
| Factory repairs | 1,400 | |
| Total manufacturing | | |
| overhead..... | | 141,660 |
| Total manufacturing costs | | 385,710 |
| Total cost of work in process | | 405,510 |
| Less: Work in process, June 30, 2020 | | |
| 18,600 | | |
| Cost of goods manufactured | | \$386,910 |

[\$19,800 + ((\$48,000 + \$96,400 - \$39,600) + \$139,250 + (\$58,000 + \$27,600 + \$24,460 + \$16,000 + \$9,600 + \$4,600 + \$1,400)) - \$18,600 = \$386,910]

[Beg. WIP + ((Beg. raw mat. + Raw mat. purch. - End. raw mat.) + DL + (Plant mgrs.. sal. + Fact. util. + Ind. labor + Fact. mach. depr. + Fact. prop. tax. + Fact. ins. + Fact. repairs)) - End. WIP = COGM]

PROBLEM 1-4A (Continued)

**(b) CLARKSON COMPANY
(Partial) Income Statement
For the Year Ended June 30, 2020**

| | | |
|---|-----------------------|-------------------------|
| Sales revenues | | |
| Sales revenue | \$534,000 | |
| Less: Sales discounts | <u>4,200</u> | |
| Net sales | | \$529,800 |
| Cost of goods sold | | |
| Finished goods inventory, July 1, 2019 | 96,000 | |
| Cost of goods manufactured | <u>386,910</u> | |
| Cost of goods available for sale | 482,910 | |
| Less: Finished goods inventory, June 30, 2020 | <u>75,900</u> | |
| Cost of goods sold | | <u>407,010</u> |
| Gross profit | | <u>\$122,790</u> |
| <p>[((\$534,000 - \$4,200) - (\$96,000 + \$386,910 - \$75,900) = \$122,790] [(Sales rev. - Sales disc.) - (Beg. fin. gds. + COGM - End. fin. gds.) = GP]</p> | | |

**(c) CLARKSON COMPANY
(Partial) Balance Sheet
June 30, 2020**

| | | |
|-----------------------------------|----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash | | \$ 32,000 |
| Accounts receivable | | 27,000 |
| Inventories | | |
| Finished goods | \$75,900 | |
| Work in process | 18,600 | |
| Raw materials | <u>39,600</u> | <u>134,100</u> |
| Total current assets | | <u>\$193,100</u> |

LO3 BT: AP Difficulty: Moderate TOT: 35 AACSB: Analytic AICPA FC: Reporting IMA: Reporting

PROBLEM 1-5A

(a) EMPIRE COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended October 31, 2020

| | | |
|---|-----------------------|--------------------------------|
| Work in process, October 1 | | \$ 20,000 |
| Direct materials | | |
| Raw materials inventory, | | |
| October 1 | \$ 18,000 | |
| Raw materials | | |
| purchases | <u>264,000</u> | |
| Total raw materials available | | |
| for use | 282,000 | |
| Less: Raw materials inventory, | | |
| October 31 | <u>29,000</u> | |
| Direct materials used | | \$253,000 |
| Direct labor | | 190,000 |
| Manufacturing overhead | | |
| Factory facility rent | 60,000 | |
| Depreciation on factory | | |
| equipment | 31,000 | |
| Indirect labor | 28,000 | |
| Factory utilities* | 9,000 | |
| Factory insurance** | <u>4,800</u> | |
| Total manufacturing | | |
| overhead..... | | <u>132,800</u> |
| Total manufacturing costs | | <u>575,800</u> |
| Total cost of work in process | | 595,800 |
| Less: Work in process, October 31..... | | <u>14,000</u> |
| Cost of goods manufactured | | <u><u>\$581,800</u></u> |

***\$12,000 X 75% = \$9,000**

****\$ 8,000 X 60% = \$4,800**

$[\$20,000 + ((\$18,000 + \$264,000 - \$29,000) + \$190,000 + (\$60,000 + \$31,000 + \$28,000 + (\$12,000 \times 75\%) + (\$8,000 \times 60\%))) - \$14,000 = \$581,800]$

$[\text{Beg. WIP} + ((\text{Beg. raw mat.} + \text{Raw mat. purch.} - \text{End. raw mat.}) + \text{DL} + (\text{Fact. facil. rent} + \text{Depr. on fact. equip.} + \text{Ind. labor} + \text{Fact. util.} + \text{Fact. ins.})) - \text{End. WIP} = \text{COGM}]$

PROBLEM 1-5A (Continued)

(b)

**EMPIRE COMPANY
Income Statement
For the Month Ended October 31, 2020**

| | | |
|---|------------------|------------------|
| Sales revenue | | \$780,000 |
| Cost of goods sold | | |
| Finished goods inventory, October 1 | \$ 30,000 | |
| Cost of goods manufactured..... | 581,800 | |
| Cost of goods available for sale | 611,800 | |
| Less: Finished goods inventory, October 31 | 50,000 | |
| Cost of goods sold | | 561,800 |
| Gross profit | | 218,200 |
| Operating expenses | | |
| Advertising expense | 90,000 | |
| Selling and administrative salaries..... | 75,000 | |
| Depreciation expense—sales equipment..... | 45,000 | |
| Insurance expense** | 3,200 | |
| Utilities expense* | 3,000 | |
| Total operating expenses | | 216,200 |
| Net income | | \$ 2,000 |

***\$12,000 X 25%**

****\$ 8,000 X 40%**

LO3 BT: AN Difficulty: Moderate TOT: 35 AACSB: Analytic AICPA FC: Reporting IMA: Reporting

CURRENT DESIGNS

CD1

The answers to parts (a) and (b) may vary from student to student.

(a) What are the primary information needs of each manager?

Mike Cichanowski, CEO, needs to know the overall financial picture of the company. He also needs to have a general picture of sales by territory and product line, and of cost per unit by product line.

Diane Buswell, Controller, needs all accounting-related information.

Deb Welch, Purchasing Manager, needs to know the costs of the components for each product.

Bill Johnson, Sales Manager, needs to know sales by territory and product line.

Dave Thill, Kayak Plant Manager, needs to know all the costs of producing each type of kayak.

Rick Thrune, Production Manager for Composite Kayaks, needs to know the costs related to the composite kayak production.

CD1 (Continued)

- (b) Name one special-purpose management accounting report that could be designed for each manager. Include the name of the report, the information it would contain, and how frequently it should be issued.

| Manager | Name of report | Information report would contain | How frequently should it be issued? |
|-------------------------|---|---|--|
| Mike Cichanowski | Analysis of proposed new product line | Projected revenues and expenses for a possible new product line | As needed and requested |
| Diane Buswell | Company-wide budget analysis | Revenues, expenses, and net income compared to the budgeted amounts for each | Monthly |
| Deb Welch | Purchasing History | List of items purchased and most recent cost for each item | Monthly or available on-line |
| Bill Johnson | Sales Summary | Sales by product line and by customer | Monthly or weekly |
| Dave Thill | Cost of Production Report | Direct materials, direct labor, and manufacturing overhead costs assigned to each product line | Monthly or weekly |
| Rick Thrune | Cost of Production Report for Composite Kayaks | Detailed direct material and direct labor costs for the composite kayaks | Weekly |

CD1 (Continued)

- (c) When Diane Buswell, controller for Current Designs, reviewed the accounting records for a recent period, she noted the following items. Classify each item as a product cost or a period cost. If a cost is a product cost, note if it is a direct materials, direct labor, or manufacturing overhead item.

| Payee | Purpose | Product Costs | | | Period Costs |
|-----------------------------------|---|------------------|--------------|------------------------|----------------|
| | | Direct Materials | Direct Labor | Manufacturing Overhead | |
| Winona Agency | Property insurance for the manufacturing plant | | | \$3,200 | |
| Bill Johnson (sales manager) | Payroll—payment to sales manager | | | | \$1,700 |
| Xcel Energy | Electricity for manufacturing plant | | | 450 | |
| Winona Printing | Price lists for salespeople | | | | 85 |
| Jim Kaiser (sales representative) | Sales commissions | | | | 1,250 |
| Dave Thill (plant manager) | Payroll—payment to plant manager | | | 1,450 | |
| Dana Schultz (kayak assembler) | Payroll—payment to kayak assembler | | \$760 | | |
| Composite One | Bagging film used when kayaks are assembled. It is discarded after use. | | | 260 | |
| Fastenal | Shop supplies—brooms, paper towels, etc. | | | 890 | |
| Ravago | Polyethylene powder which is the main ingredient for the rotational molded kayaks | \$3,170 | | | |
| Winona County | Property taxes on manufacturing plant | | | 5,480 | |
| North American Composites | Kevlar® fabric for composite kayaks | 4,930 | | | |
| Waste Management | Trash disposal for the company office building | | | | 660 |
| None | Journal entry to record depreciation of manufacturing equipment | | | 4,540 | |
| Totals | | \$8,100 | \$760 | \$16,270 | \$3,695 |

LO1, 2 BT: AN Difficulty: Moderate TOT: 60 min. AACSB: Analytic AICPA FC: Measurement IMA: Cost Management, Performance Measurement

Ending Raw Materials Inventory

Beginning raw materials + Raw materials purchased
 = Raw materials available for use
 = \$19,000 + \$365,000 = \$384,000

Raw materials available for use – Ending raw materials inventory
 = Direct materials used

\$384,000 – Ending raw materials inventory = \$350,000

Ending raw materials inventory = \$384,000 – \$350,000 = \$34,000

(\$19,000 + \$365,000 - \$350,000 = \$34,000)

(Beg. raw mat. + Raw mat. purch. – DM used = End. raw mat.)

Ending Work in Process Inventory

Direct materials + Direct labor + Manufacturing overhead
 = Total manufacturing costs
 = \$350,000 + \$250,000 + (\$250,000 X 60%) = \$750,000

Beginning work in process inventory + Total manufacturing costs
 = Total cost of work in process
 = \$25,000 + \$750,000 = \$775,000

Cost of goods manufactured + Beginning finished goods inventory
 = Cost of goods available for sale

Cost of goods manufactured + \$38,000 = \$770,000

Cost of goods manufactured = \$770,000 – \$38,000 = \$732,000

Total cost of work in process – Ending work in process inventory
 = Cost of goods manufactured

\$775,000 – Ending work in process inventory = \$732,000

Ending work in process inventory = \$775,000 – \$732,000 = \$43,000

[((\$25,000 + (\$350,000 + \$250,000 + (\$250,000 x 60%)) = \$775,000); (\$770,000 - \$38,000 = \$732,000);
 (\$775,000 - \$732,000 = \$43,000)]

[(Beg. WIP + (DM + DL + (DL x MOH rate)) = Tot. cost in WIP); (Cost of gds. avail. for sale – Beg. fin. gds. =
 COGM); (Tot. cost in WIP – COGM = End. WIP)]

Ending Finished Goods Inventory

Sales – Cost of goods sold = Gross profit

\$1,240,000 – Cost of goods sold = \$1,240,000 X 40%

Cost of goods sold = \$1,240,000 – \$496,000 = \$744,000

CT1-1 (Continued)

**Cost of goods available for sale – Ending finished goods inventory
= Cost of goods sold**

\$770,000 – Ending finished goods inventory = \$744,000

Ending finished goods inventory = \$770,000 – \$744,000 = \$26,000

LO3 BT: AN Difficulty: Moderate TOT: 40 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

Since the questions were fairly open-ended, the following are only suggested results. The class may be able to think of others, or of more items for each one.

- (a) *Jason Dennis* Needs information on sales, perhaps by salesperson and by territory.
- Peggy Groneman* Needs cost information for her department.
- Dave Marley* Needs all manufacturing accounting information.
- Kevin Carson* Needs product cost information.
- Sally Renner* Needs information on component costs and costs for her department.
- (b) *Jason Dennis* Income statement.
- Peggy Groneman* None.
- Dave Marley* All.
- Kevin Carson* Income statement and cost of goods manufactured schedule.
- Sally Renner* None.
- (c) *Jason Dennis* Sales by Territory—Detailed information, possibly by product line, issued daily or weekly.
- Peggy Groneman* Cost of Computer Programs—Accumulated cost incurred for each major program used including maintenance and updates of program, issued monthly.
- Dave Marley* Cost of Preparing Reports—Detailed analysis of all reports provided, their frequency, time, and estimated cost to prepare, issued monthly.
- Kevin Carson* Cost of Product—Detailed cost by product line, including a comparison with estimated costs for that product. Issued as each batch of production is completed.
- Sally Renner* Cost of Product Design—Accumulated total costs of each new product, issued at end of each project.

LO3 BT: AN Difficulty: Moderate TOT: 40 min. AACSB: Analytic AICPA FC: Reporting IMA: Cost Management, Performance Measurement

- (a) The IMA has more than 85,000 members. These members include business leaders, managers, and decision makers in accounting and finance.
- (b) Student and Associate members receive most of the benefits of Regular membership at a significant savings.
- Unique access to the professional designation, the Certified Management Accountant (CMA)
 - Specialized learning opportunities
 - Educational assistance, grants, educational competitions
 - Around-the-Clock Networking
 - Career management resources
- (c) The answer to this question will vary by school.

LO N/A BT: K Difficulty: Easy TOT: 20 min. AACSB: Technology AICPA PC: Communication IMA: None

Ms. Shelly Phillips
 President
 Phillips Company

Dear Shelly:

As you requested, I corrected the income statement for October from the information you gave me. The corrected statement is enclosed and it shows that you actually earned net income of \$2,000 for October. I also noticed that you did not have a cost of goods manufactured schedule, so I prepared one for you.

The income statement your assistant accountant prepared was not correct for two primary reasons. First, product costs were not separated from selling and administrative expenses. Second, and more importantly, the reported net loss did not reflect changes in inventories. This had the effect of treating these costs as expenses rather than assets. A reconciliation of the reported net loss of \$23,000 to net income of \$2,000 is as follows:

| | | |
|---|---------------|-----------------|
| Net loss as reported | | \$(23,000) |
| Increase (decrease) in inventories | | |
| Raw materials (\$29,000 – \$18,000) | \$11,000 | |
| Work in process (\$14,000 – \$20,000) | (6,000) | |
| Finished goods (\$50,000 – \$30,000) | <u>20,000</u> | |
| Total increase | | <u>25,000</u> |
| Net income as corrected | | <u>\$ 2,000</u> |

The changes in raw materials and work in process inventories are reported in the cost of goods manufactured schedule. You will see, for example, that the cost of direct materials used was \$253,000, not \$264,000 as reported by your accountant in the income statement. The difference is the change in raw materials inventories. Similarly, you will see that the \$6,000 decrease in work in process inventories increases total manufacturing costs of \$575,800 to produce cost of goods manufactured of \$581,800.

The change in finished goods inventories is reported in the income statement. Notice that the change of \$20,000 is subtracted from cost of goods manufactured of \$581,800 to produce cost of goods sold of \$561,800.

CT 1-4 (Continued)

I have also modified the form of the income statement to recognize the distinction between product costs (cost of goods sold) and period costs (operating expenses) as required by generally accepted accounting principles.

Thanks for letting me help. If I can be of further assistance, don't hesitate to call. I hope you find a replacement for your controller soon.

Sincerely,

LO3 BT: AN Difficulty: Moderate TOT: 15 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

- (a) The stakeholders in this situation are:
- The users of Newton Industries' financial statements.
 - Steve Morgan, controller.
 - The vice-president of finance.
 - The president of Newton Industries.
- (b) The ethical issues in this situation pertain to the adherence to sound and acceptable accounting principles. Intentional violation of generally accepted accounting principles in order to satisfy a practical short-term personal or company need and thus create misleading financial statements would be unethical. Selecting one acceptable method of accounting and reporting among other acceptable methods is not necessarily unethical.
- (c) Ethically, the management of Newton Industries should be trying to report the financial condition and results of operations as fairly as possible; that is, in accordance with GAAP. Steve should inform management what is acceptable accounting and what is not. The basic concept to be supported in this advertising cost transaction is matching costs and revenues. Normally, advertising costs are expensed in the period in which they are incurred because it is very difficult to associate them with specific revenues.

LO2, 3 BT: E Difficulty: Moderate TOT: 20 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: professional Demeanor, Communication IMA: Business Applications, Reporting

Student responses will vary. We have provided some basic examples that may represent common responses.

- (a) Individuals must often make purchase decisions which involve choosing between an item that has a more expensive initial purchase price, but is expected to either last longer, or provides some form of cost savings. The question that the individual faces is whether the cost savings or additional benefit justifies the additional initial cost. For example, more expensive dishwashers and refrigerators also tend to be more energy efficient. The labels on these appliances provide information regarding the energy savings which can be used to make a break-even evaluation.**
- (b) In order to increase control over their financial situation and reduce the probability of financial hardship, all people should prepare personal budgets. Preparation of a personal budget requires the individual to plan for the future and to prioritize expenditures.**
- (c) Companies employ the balanced scorecard as a mechanism to ensure that their financial goals are consistent with their efforts. Use of the balanced scorecard requires clear articulation of goals, priorities, and strategies. By employing these same techniques in their everyday life, individuals can be better assured that they will expend effort on those things that really matter to them, rather than wasting efforts on less important distractions.**
- (d) Capital budgeting involves financial evaluation of long-term assets. Companies routinely make capital budgeting decisions, but so do individuals. The purchase of a home or car is a decision that has implications for your finances for many subsequent years. Buying a house or car is a very personal decision, influenced by many personal, nonfinancial, preferences. However, these decisions should also be subjected to a financial evaluation using capital budgeting techniques to ensure that the choice makes good economic sense.**

LO N/A BT: C Difficulty: Moderate TOT: 25 min. AACSB: None AICPA FC: Measurement IMA: Cost Management, Budget Preparation Performance Measurement

CT 1-7

CONSIDERING YOUR COSTS AND BENEFITS

Discussion guide: This is a difficult decision. While the direct costs of outsourced tax return preparation may in fact be lower, you must also consider other issues: Will the accuracy of the returns be as high? Will your relationships with your customers suffer due to the loss of direct contact? Will customers resent having their personal information shipped overseas? While you may not want to lay off six employees, you also don't want to put your firm at risk by not remaining competitive. Perhaps one solution would be to outsource the most basic tasks, and then provide training to the six employees so they can perform higher-skilled services such as tax planning. Many of the techniques that you learn in the remaining chapters of this text will help you evaluate the merits of your various options.

LO2 BT: E Difficulty: Moderate TOT: 25 min. AACSB: Analytic AICPA FC: Measurement AICPA PC: Communication IMA: Cost management