1. value:
10.00 points

Maxwell Company manufactures and sells a single product. The following costs were incurred during the company's first year of operations:

Variable costs per unit:	
Manufacturing:	
Direct materials	$ 18
Direct labor	$ 7
Variable manufacturing overhead	$ 2
Variable selling and administrative	$ 2
Fixed costs per year:	
Fixed manufacturing overhead	$ 200,000
Fixed selling and administrative expenses	$ 110,000

During the year, the company produced 20,000 units and sold 16,000 units. The selling price of the company's product is $50 per unit.

Required:

1. Assume that the company uses absorption costing:

a. Compute the unit product cost. **(Omit the "$" sign in your response.)**

Unit product cost	$ 37

b. Prepare an income statement for the year. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)**

Absorption Costing Income Statement	
Sales	$ 800000
Cost of goods sold	592000
Gross margin	208000
Selling and administrative expenses	142000
Net operating income (loss)	$ 66000

2. Assume that the company uses variable costing:

a. Compute the unit product cost. **(Omit the "$" sign in your response.)**

Unit product cost	$ 27

b. Prepare an income statement for the year. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)**

Variable Costing Income Statement		
Sales		$ 800000
Less: Variable expenses		
Variable cost of goods sold	$ 432,000	
Variable selling expense	32,000	464000
Contribution margin		336000
Less: Fixed expenses		
Fixed selling and administrative expenses	110,000	
Fixed manufacturing overhead	200,000	310000
Net operating income (loss)		$ 26000

3. The company's controller believes that the company should have set last year's selling price at $51 instead of $50 per unit. She estimates the company could have sold 15,000 units at a price of $51 per unit, thereby increasing the company's gross margin by $2,000 and its net operating income by $4,000.

a. Do you think the absorption costing approach is the proper way to assess the merits of the proposed price increase?

- ○ Yes
- ◉ No

b. Do you think the variable costing approach is the proper way to assess the merits of the proposed price increase?

- ◉ Yes
- ○ No

c. Using the variable costing approach, by how much will profits increase or decrease if the price increase in implemented?

Decrease by	$ 6000

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2. value:
10.00 points

CompuDesk, Inc., makes an oak desk specially designed for personal computers. The desk sells for $200. Data for last year's operations follow:

Units in beginning inventory	0
Units produced	10,000
Units sold	9,000
Units in ending inventory	1,000
Variable costs per unit:	
Direct materials	$ 60
Direct labor	30
Variable manufacturing overhead	10
Variable selling and administrative	20
Total variable cost per unit	$ 120
Fixed costs:	
Fixed manufacturing overhead	$300,000
Fixed selling and administrative	450,000
Total fixed costs	$750,000

Required:

1. Assume that the company uses variable costing. Compute the unit product cost for one computer desk. **(Omit the "$" sign in your response.)**

Unit product cost	$ 100

2. Assume that the company uses variable costing. Prepare a contribution format income statement for the year. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)**

Variable Costing Income Statement		
Sales		$ 1800000
Variable expenses:		
Variable cost of goods sold	$ 900,000	
Variable selling and administrative expense:	180,000	1080000
Contribution margin		720000
Fixed expenses:		
Fixed manufacturing overhead	300,000	
Fixed selling and administrative expenses	450,000	750000
Net operating income (loss)		$ -30000

3. What is the company's break-even point in terms of units sold?

Break-even point	9375 units

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3. value:
10.00 points

Shastri Bicycle of Bombay, India, produces an inexpensive, yet rugged, bicycle for use on the city's crowded streets that it sells for 500 rupees. (Indian currency is denominated in rupees, denoted by ₹.) Selected data for the company's operations last year follow:

Units in beginning inventory	0
Units produced	10,000
Units sold	8,000
Units in ending inventory	2,000
Variable costs per unit:	
Direct materials	₹ 120
Direct labor	₹ 140
Variable manufacturing overhead	₹ 50
Variable selling and administrative	₹ 20
Fixed costs:	
Fixed manufacturing overhead	₹ 600,000
Fixed selling and administrative	₹ 400,000

Required:

1. Assume that the company uses absorption costing. Compute the unit product cost for one bicycle. **(Omit the "₹" sign in your response.)**

Unit product cost	₹	370

2. Assume that the company uses variable costing. Compute the unit product cost for one bicycle. **(Omit the "₹" sign in your response.)**

Unit product cost	₹	310

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[The following information applies to the questions displayed below.]

High Tension Transformers, Inc., manufactures heavy-duty transformers for electrical switching stations. The company uses variable costing for internal management reports and absorption costing for external reports to shareholders, creditors, and the government. The company has provided the following data:

	Year 1	Year 2	Year 3
Inventories:			
Beginning (units)	180	150	160
Ending (units)	150	160	200
Variable costing net operating income	$292,400	$269,200	$251,800

The company's fixed manufacturing overhead per unit was constant at $450 for all three years.

4.

value:
10.00 points

Required:

1. Determine each year's absorption costing net operating income. **(Amounts to be deducted should be indicated with a minus sign. Omit the "$" sign in your response.)**

Reconciliation of Variable Costing and Absorption Costing Net Operating Incomes	Year 1	Year 2	Year 3
Variable costing net operating income	$ 292400	$ 269200	$ 251800
Add (deduct) fixed manufacturing overhead deferred in (released from) inventory under absorption costing	-13500	4500	18000
Absorption costing net operating income	$ 278900	$ 273700	$ 269800

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5.

value:
10.00 points

2. In Year 4, the company's variable costing net operating income was $240,200 and its absorption costing net operating income was $267,200.

a. Did inventories increase or decrease during Year 4?

- ○ Decreased
- ◉ Increased

b. How much fixed manufacturing overhead cost was deferred or released from inventory during Year 4? **(Omit the "$" sign in your response.)**

Fixed manufacturing overhead cost deferred in inventory during Year 4 $ 27000.

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6. value: **10.00 points**

Amcor, Inc., incurs the following costs to produce and sell a single product.

Variable costs per unit:	
Direct materials	$ 10
Direct labor	$ 5
Variable manufacturing overhead	$ 2
Variable selling and administrative expenses	$ 4
Fixed costs per year:	
Fixed manufacturing overhead	$ 90,000
Fixed selling and administrative expenses	$ 300,000

During the last year, 30,000 units were produced and 25,000 units were sold. The Finished Goods inventory account at the end of the year shows a balance of $85,000 for the 5,000 unsold units.

Required:

1. Determine whether the company is using absorption costing or variable costing to cost units in the Finished Goods inventory account.

a. Calculate the ending balance in the Finished Goods inventory account under variable costing and absorption costing. **(Omit the "$" sign in your response.)**

Ending balance in Finished Good inventory account under variable costing	$	85000
Ending balance in Finished Goods inventory under absorption costing	$	100000

b. Which costing method is the company using to cost units in the Finished Goods inventory account?

- ○ Absorption costing
- ◉ Variable costing

2. Assume that the company wishes to prepare financial statements for the year to issue to its stockholders.

a. Is the $85,000 figure for Finished Goods inventory the correct amount to use on these statements for external reporting purposes?

- ○ Yes, because variable costing is generally accepted for external reporting.
- ◉ No, because variable costing is not generally accepted for external reporting.
- ○ Yes, because absorption costing is generally accepted for external reporting.
- ○ No, because absorption costing is not generally accepted for external reporting.

b. At what dollar amount should the 5,000 units be carried in inventory for external reporting purposes? **(Omit the "$" sign in your response.)**

Finished Goods inventory balance for external reporting purposes	$	100000

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7. value: 10.00 points

Michaels Company segments its income statement into its East and West Divisions. The company's overall sales, contribution margin ratio, and net operating income are $600,000, 50%, and $50,000, respectively. The West Division's contribution margin and contribution margin ratio are $150,000 and 75%, respectively. The East Division's segment margin is $70,000. The company has $60,000 of common fixed costs that cannot be traced to either division.

Required:
Prepare an income statement for Michaels Company that uses the contribution format and is segmented by divisions. In addition, for the company as a whole and for each segment, show each item on the segmented income statements as a percent of sales. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Round your percentage answers to 1 decimal place. Omit the "$" and "%" signs in your response.)**

	Total Company		Divisions			
			East		West	
	Amount	%	Amount	%	Amount	%
Sales	$ 600000	100	$ 400000	100	$ 200000	100
Variable expenses	300000	50	250000	62.5	50000	25
Contribution margin	300000	50	150000	37.5	150000	75
Traceable fixed expenses	190000	31.7	80000	20	110000	55
Territorial segment margin	110000	18.3	$ 70000	17.5	$ 40000	20
Common fixed expenses	60000	10				
Net operating income (loss)	$ 50000	8.3				

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[The following information applies to the questions displayed below.]

Shastri Bicycle of Bombay, India, produces an inexpensive, yet rugged, bicycle for use on the city's crowded streets that it sells for 500 rupees. (Indian currency is denominated in rupees, denoted by ₹.) Selected data for the company's operations last year follow:

Units in beginning inventory	0
Units produced	10,000
Units sold	8,000
Units in ending inventory	2,000
Variable costs per unit:	
Direct materials	₹ 120
Direct labor	₹ 140
Variable manufacturing overhead	₹ 50
Variable selling and administrative	₹ 20
Fixed costs:	
Fixed manufacturing overhead	₹ 600,000
Fixed selling and administrative	₹ 400,000

The absorption costing income statement prepared by the company's accountant for last year appears below:

Sales	₹ 4,000,000
Cost of goods sold	2,960,000
Gross margin	1,040,000
Selling and administrative expense	560,000
Net operating income	₹ 480,000

8. value:
10.00 points

Required:

1. Determine how much of the ending inventory consists of fixed manufacturing overhead cost deferred in inventory to the next period. **(Omit the "₹" sign in your response.)**

Total fixed manufacturing overhead in ending inventory	₹	120000

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9. value:
10.00 points

2. Prepare an income statement for the year using variable costing. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "₹" sign in your response.)**

Variable Costing Income Statement		
Sales		₹ 4000000
Variable expenses:		
Variable cost of goods sold	₹ 2,480,000	
Variable selling and administrative expenses	160,000	2640000
Contribution margin		1360000
Fixed expenses:		
Fixed manufacturing overhead	600,000	
Fixed selling and administrative expenses	400,000	1000000
Net operating income (loss)		₹ 360000

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10. value:
10.00 points

Required:

1. Determine how much of the ending inventory consists of fixed manufacturing overhead cost deferred in inventory to the next period. **(Omit the "₹" sign in your response.)**

Total fixed manufacturing overhead in ending inventory	₹	120000

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11. value:
10.00 points

2. Prepare an income statement for the year using variable costing. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "₹" sign in your response.)**

Variable Costing Income Statement				
Sales			₹	4000000
Variable expenses:				
Variable cost of goods sold	₹	2,480,000		
Variable selling and administrative expense		160,000		2640000
Contribution margin				1360000
Fixed expenses:				
Fixed manufacturing overhead		600,000		
Fixed selling and administrative expenses		400,000		1000000
Net operating income (loss)			₹	360000

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12. value:
10.00 points

Required:

1. Determine how much of the ending inventory consists of fixed manufacturing overhead cost deferred in inventory to the next period. **(Omit the "₹" sign in your response.)**

Total fixed manufacturing overhead in ending inventory	₹	120000

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13. value:
10.00 points

2. Prepare an income statement for the year using variable costing. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "₹" sign in your response.)**

Variable Costing Income Statement				
Sales			₹	4000000
Variable expenses:				
Variable cost of goods sold	₹	2,480,000		
Variable selling and administrative expense		160,000		2640000
Contribution margin				1360000
Fixed expenses:				
Fixed manufacturing overhead		600,000		
Fixed selling and administrative expenses		400,000		1000000
Net operating income (loss)			₹	360000

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14. value:
10.00 points

CompuDesk, Inc., makes an oak desk specially designed for personal computers. The desk sells for $200. Data for last year's operations follow:

Units in beginning inventory	0
Units produced	10,000
Units sold	9,000
Units in ending inventory	1,000
Variable costs per unit:	
Direct materials	$ 60
Direct labor	30
Variable manufacturing overhead	10
Variable selling and administrative	20
Total variable cost per unit	$ 120
Fixed costs:	
Fixed manufacturing overhead	$300,000
Fixed selling and administrative	450,000
Total fixed costs	$750,000

Required:

1. Assume that the company uses variable costing. Compute the unit product cost for one computer desk. **(Omit the "$" sign in your response.)**

Unit product cost	$	100

2. Assume that the company uses variable costing. Prepare a contribution format income statement for the year. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)**

Variable Costing Income Statement				
Sales			$	1800000
Variable expenses:				
Variable cost of goods sold	$	900,000		
Variable selling and administrative expense:		180,000		1080000
Contribution margin				720000
Fixed expenses:				
Fixed selling and administrative expenses		450,000		
Fixed manufacturing overhead		300,000		750000
Net operating income (loss)			$	-30000

3. What is the company's break-even point in terms of units sold?

Break-even point	9375	units

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Score: **140** out of 140 points (100%)