

PROBLEM AAA: GREGG CORPORATION (50 points)

Given the following information for Gregg Corporation, prepare the necessary journal entries, assuming that the Raw Material Inventory account contains both direct and indirect material.

- Purchased raw material on account \$45,500.
- Put material into production: \$28,000 of direct material and \$5,000 of indirect material.
- Accrued payroll of \$95,000, of which 65 percent was direct and the remainder was indirect.
- Incurred and paid other overhead items of \$42,000.
- Transferred items costing \$92,500 to finished goods.
- Sold goods costing \$79,900 on account for \$134,200.

PROBLEM BBB: GOOSE ISLAND THEME PARK (15 points)

Goose Island Theme Park provides the following data on the costs of maintenance and the number of visitors for the last 3 years:

# of Visitors per year (thousands)	Maintenance Costs (\$000)
1,825	\$2,295 2,925
2,007	3,225
2,375	3,750

Required:

- Use the high-low method to estimate the fixed cost of maintenance annually and the variable cost of maintenance per visitor. What is the cost formula?
- The company expects a record 2,600,000 visitors next year. What would be the estimated maintenance cost?
- Company management is considering eliminating the maintenance department and contracting with an outside firm. Management is especially concerned with the fixed cost of maintenance. The maintenance manager tells you, the cost analyst, that 2,375,000 is an outlier and should not be used in the analysis. Assume that this will lower estimated fixed costs. Is it ethical to treat this observation as an outlier? (Show calculations to support your answer, if necessary.)

MULTIPLE CHOICE QUESTIONS [10 questions; 2 points each]

Circle the letter of the best answer.																	
N	Question/Possible Answers																
1.	Broadly speaking, cost accounting can be defined as a(n)																
Ans.	<ul style="list-style-type: none"> a. external reporting system that is based on activity-based costs. b. system used for providing the government and creditors with information about a company's internal operations. c. internal reporting system that provides product costing and other information used by managers in performing their functions. d. internal reporting system needed by manufacturers to be in compliance with Cost Accounting Standards Board pronouncements. 																
2.	<p>The following information is available for Richardson Company for its first year of operations:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Sales in units</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Production in units</td> <td style="text-align: right;">8,000</td> </tr> <tr> <td colspan="2">Manufacturing costs:</td> </tr> <tr> <td style="padding-left: 20px;">Direct labor</td> <td style="text-align: right;">\$3 per unit</td> </tr> <tr> <td style="padding-left: 20px;">Direct material</td> <td style="text-align: right;">\$5 per unit</td> </tr> <tr> <td style="padding-left: 20px;">Variable overhead</td> <td style="text-align: right;">\$1 per unit</td> </tr> <tr> <td style="padding-left: 20px;">Fixed overhead</td> <td style="text-align: right;">\$100,000</td> </tr> <tr> <td>Net income (absorption method)</td> <td style="text-align: right;">\$30,000</td> </tr> </table> <p>If Richardson Company were using variable costing, what would it show as the value of ending inventory?</p>	Sales in units	5,000	Production in units	8,000	Manufacturing costs:		Direct labor	\$3 per unit	Direct material	\$5 per unit	Variable overhead	\$1 per unit	Fixed overhead	\$100,000	Net income (absorption method)	\$30,000
Sales in units	5,000																
Production in units	8,000																
Manufacturing costs:																	
Direct labor	\$3 per unit																
Direct material	\$5 per unit																
Variable overhead	\$1 per unit																
Fixed overhead	\$100,000																
Net income (absorption method)	\$30,000																
Ans.	<ul style="list-style-type: none"> a. \$120,000 b. \$64,500 c. \$27,000 d. \$24,000 																
3.	If the level of activity increases,																
Ans.	<ul style="list-style-type: none"> a. variable cost per unit and total fixed costs increase. b. fixed cost per unit and total variable cost increase. c. total cost will increase and fixed cost per unit will decrease. d. variable cost per unit and total cost increase. 																
4.	An ending inventory valuation on an absorption costing balance sheet would																
Ans.	<ul style="list-style-type: none"> a. sometimes be less than the ending inventory valuation under variable costing. b. always be less than the ending inventory valuation under variable costing. c. always be the same as the ending inventory valuation under variable costing. d. always be greater than or equal to the ending inventory valuation under variable costing. 																

Circle the letter of the best answer.

9. Texoma Trucking Company is exploring different prediction models that can be used to forecast indirect labor costs. One independent variable under consideration is machine hours. Following are matching observations on indirect labor costs and machine hours for the past six months:

<u>Month</u>	<u>Machine hours</u>	<u>Indirect labor costs</u>
1	300	\$20,000
2	400	\$24,000
3	240	\$17,000
4	370	\$22,000
5	200	\$13,000
6	225	\$14,000

In a high-low model, which months' observations would be used to compute the model's parameters?

- Ans. a. 2 and 5
b. 1 and 6
c. 2 and 6
d. 4 and 5

10. A cost that remains constant in total but varies on a per-unit basis with changes in activity is called a(n)

- Ans. a. expired cost.
b. fixed cost.
c. variable cost.
d. mixed cost.