Financial & Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

Chapter 20: Variable Costing: A Tool for Decision Making

1. Under Absorption costing, the cost of goods sold includes:

a. Selling expenses
b. Administrative expenses
c. Variable and fixed manufacturing overhead
d. All of the above

2. Under Variable costing, fixed expenses:

a. Are subtracted from sales to arrive at the contribution margin
b. Are subtracted from sales to arrive at the gross profit
c. Are expensed in the current period
d. A and C

3. Quality Motors manufactures sports cars and sells them to local dealerships. They use absorption costing. If Quality Motors want to defer the recognition of fixed costs as an expense, they can:

a. Produce more inventory than they sell in a period
b. Sell more inventory than they produce in a period
c. Sell as much as they produce in a period
d. None of the above

4. Quality Motors manufactures sports cars and sells them to local dealerships. They use absorption costing. Quality Motors has lower net income on their income statement this period compared to the previous period.

What could be a possible explanation for their lower net income?

a. Production exceeds sales
b. Sales equals production
c. Sales exceeds production
d. None of the above

5. Assume that Quality Motors use Variable Costing:

Sales:	$34,000,000
Cost of Direct Materials used in production:	$6,200,000
Cost of Direct Labor wages:	$8,235,500
Variable Manufacturing Overhead:	$7,080,000
Fixed Manufacturing Overhead:	$4,950,000
Fixed Selling Expenses:	$2,500,000

What is Quality Motors contribution margin and net income?

a. Contribution Margin: $9,984,500 Net Income: $5,034,500
b. Contribution Margin: $12,484,500 Net Income: $5,034,500
c. Contribution Margin: $19,564,500 Net Income: $5,034,500
d. None of the above, the answer should include gross profit not contribution margin

Reference the following information for Questions 6 and 7.

Amos Rubber company manufactures tires. They reported the following information from their operations last period:

Cost of Direct Materials used in production:	$35,000
Cost of Direct Labor wages:	$40,000
Variable Manufacturing Overhead:	$30,000
Fixed Manufacturing Overhead:	$75,000
Total units produced and sold:	50,000

6. Under variable costing, what was the per-unit cost of the units produced?

a. $2.10
b. $3.60
c. $4.10
d. $4.20

7. Under absorption costing, the per-unit cost is greater than the variable per-unit cost by how much?

a. $1.50
b. $2.10
c. $2.75
d. $3.10

8. Wilcher's construction company reported the following information from their operations last year:

Direct Labor:	5,000 hours @ $20/hr
Production Manager Salary:	$60,000
Fixed Factory Rent:	$5,000 per month
Equipment maintenance (Variable Expense):	$1,500 per month
Equipment depreciation:	$40,000
Absorption Income:	$1,200,000

Production equaled sales for the period. What would income be under variable costing?

a. $1,200,000
b. $1,360,000
c. $1,040,000
d. We don't have enough information to determine income under variable costing

9. Wilcher's construction reported the following information for their operations last year.

Direct Labor:	5,000 hours @ $20/hr
Production Manager Salary:	$60,000
Fixed Factory Rent:	$5,000 per month
Equipment maintenance (Variable Expense):	$1,500 per month
Equipment depreciation:	$40,000
Administrative Expenses:	$75,000
Total Revenue:	$1,200,000

Production equaled sales for the period. What would income be under variable costing?

a. $847,000
b. $922,000
c. $940,000
d. We don't have enough information to determine income under variable costing

10. When will variable and absorption costing produce the same operating income?

a. When production is greater than sales
b. When production is less than sales
c. When production equals sales
d. They will never produce the same operating income

SOLUTIONS

Chapter 20: Variable Costing: A Tool for Decision Making

1. c

2. c

3. a

4. c

5. b

6. a

7. a

8. a

9. a

10. c