The correct answer is shown.

When computing a segment margin, only traceable fixed costs are charged to the particular segment.

✓ Your answer is correct.
Differences in net operating income between absorption costing and variable costing is due to the:

- amount of selling and administrative cost expensed
- format of the income statements
- timing of when fixed manufacturing overhead is expensed
- amount of sales revenue reported

Your answer is correct.
Which of the following approaches may be used internally by manufacturing companies for costing products for the purposes of valuing inventory and cost of goods sold? (Check all that apply.)

- Fixed costing
- Absorption costing
- Statement costing
- Variable costing

Your answer is correct.
The correct answer is shown.

Variable costing only treats variable manufacturing costs as product costs. *(Enter only one word per blank.)*

Your answer is correct.
True or false: Cost, profit and investment centers are segments, but sales territories, manufacturing plants, and service departments are not segments.

Your answer is correct.
When a segment is eliminated, a: (Check all that apply.)

- Your answer is correct.

- traceable fixed cost will disappear.
- traceable fixed cost will remain unchanged.
- common fixed cost will remain unchanged.
- common fixed cost will disappear.
Place the following line items in order to construct a contribution format income statement.

- Sales
- Variable costs
- Contribution margin
- Fixed costs
- Net operating income
When there is no change in inventory, net operating income will be:

- exactly the same under both absorption costing and variable costing
- higher under absorption costing than under variable costing
- higher under variable costing than under absorption costing

Your answer is correct.
Pearls, Pearls, Pearls! manufactures and sells jewelry. The total variable cost of goods sold this month is $72,490. Variable selling and administrative cost is $22 per unit sold. If 350 units are produced and 314 units are sold this month, the total variable cost reported on the income statement for the month is $79,398.
The correct answer is shown.

When allocating fixed manufacturing overhead cost to units under absorption costing, the total fixed overhead costs must be divided by the number of units produced.
In segmented reporting, what are the two kinds of fixed costs?

- General and common
- Traceable and common
- Manufacturing and general
- Manufacturing and traceable

Your answer is correct.
Absorption costing treats fixed manufacturing overhead as a product cost. (Enter only one word per blank.)
Sleep Tight manufactures bedding. The company has incurred $42,000 of fixed manufacturing overhead cost this year. The variable unit product cost is $37. Variable selling and administrative cost is $9 per unit sold, and the company incurred $59,000 of fixed selling and administrative costs. The company manufactured 28,000 units and sold 15,408 of those units. What is the amount of total fixed costs found on the income statement using variable costing?
Discontinuing a profitable segment results in: (Check all that apply.)

- the loss of the segment's revenues.
- a reduction in the overall profits of the company.
- reduced common fixed costs for the company.

Your answer is correct.
Use the following line items to construct an income statement using absorption costing.

1. Sales
2. Total cost of goods sold
3. = Gross margin
4. Total selling and administrative costs
5. = Net operating income

Your answer is correct.
Net operating income would be less under absorption costing than under variable costing in periods in which inventory:

- decreases
- increases
- remains the same

Your answer is correct.
The correct answer is shown.

A(n) common fixed cost supports the operations of more than one segment, but is not traceable in whole or part to any one segment. *(Enter only one word per blank.)*

✓ Your answer is correct.

Challenge  OK
Put'er There manufactures baseball gloves. Each glove requires $22 of direct materials and $18 of direct labor. Variable manufacturing overhead cost is $7 per unit and fixed manufacturing overhead cost is $19,000 in total. The company incurs variable selling and administrative costs of $11 per unit sold and fixed selling and administrative costs of $13,200. Last period, 800 gloves were produced, and 585 gloves were sold. What is the unit product cost using variable costing?

- $70.75 per unit
- $47 per unit
- $58 per unit
- $81.75 per unit

Your answer is correct.
Which of the following costs make up the manufacturing cost per unit of a product under variable costing? (Check all that apply.)

- Variable manufacturing overhead
- Direct labor
- Fixed manufacturing overhead
- Direct materials
- Variable selling and administrative costs

Your answer is correct.
The correct answer is shown.

The unit product cost of a blender is $24. If 900 blenders are produced and 849 blenders are sold, the total cost of goods sold is $20376 (DO NOT put a comma in your answer).

Your answer is correct.

Total cost of goods sold = 849 x $24 = $20,376.
How is the contribution format used in segment reporting different from a contribution income statement for the company as a whole?

- Your answer is correct.

The contribution format income statement used by the entire company includes fixed manufacturing overhead in cost of goods sold.

Fixed costs are divided into traceable and common costs, so that managers are only held accountable for the traceable costs of their segments.

The contribution format used for segmented reporting divides costs into their fixed and variable components.
Contrast the way fixed manufacturing overhead costs are treated in absorption costing versus variable costing.

<table>
<thead>
<tr>
<th>Your answers:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Absorption costing</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed manufacturing overhead is treated as part of the per unit product cost and expensed as units are sold.</td>
<td>✔</td>
</tr>
<tr>
<td><strong>Variable costing</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed manufacturing overhead is treated as a period cost and expensed in full each period.</td>
<td>✔</td>
</tr>
</tbody>
</table>
Selling and administrative expenses:

- Your answer is correct.

- are treated as period costs under variable costing only
- are always treated as period costs
- are treated as period costs under absorption costing only
- may be treated as either product or period costs
The correct answer is shown.

One mistake companies make when preparing segmented income statements is arbitrarily assigning common fixed costs to segments.

✓ Your answer is correct.
When inventory increases, the higher net operating income that results from using absorption costing (rather than variable costing) occurs due to the fixed manufacturing overhead:

- released to the cost of goods sold account on the income statement
- deferred in the inventory account on the balance sheet
Match the costing method with the way costs are separated for the method.

Your answers:

<table>
<thead>
<tr>
<th>Absorption costing</th>
<th>Manufacturing and selling and administrative</th>
<th>Absorption costing separates product (manufacturing) costs from period (selling and administrative) costs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable costing</td>
<td>Variable and fixed</td>
<td>Variable costing deducts all variable costs from sales to determine contribution margin and all fixed costs from contribution margin to determine profit.</td>
</tr>
</tbody>
</table>
The correct answer is shown.

The absorption costing method must be used for external reporting in the United States in order to comply with GAAP and IFRS.

✓ Your answer is correct.
Blissful Breeze manufactures and sells ceiling fans. Each fan has a unit product cost of $112 and a unit selling price of $190. If Blissful Breeze is able to produce 900 fans and sell 842 fans this period, the total cost of goods sold would be $94304.
Under absorption costing, fixed manufacturing overhead costs flow to the income statement when:

- units are sold
- the period has ended
- units are produced
- the fixed manufacturing overhead cost is incurred

Your answer is correct.
GAAP and IFRS rules (Check all that apply):

- Your answer is correct.
- require segmented financial data be included in annual reports.
- require that the same method be used for both internal and external segment reporting.
- create incentives for companies to use the contribution margin format in segment reporting.
Advocates of variable costing: (Check all that apply.)

- Your answer is correct.

- check: believe that fixed manufacturing overhead is a period cost.
- check: argue that fixed costs are not caused by and cannot be meaningfully traced to any specific unit that is produced.

- believe that all manufacturing costs must be assigned to products.
- believe that fixed manufacturing overhead is best ignored.
When using variable costing:

- Total fixed manufacturing overhead is expensed in the period incurred
- Fixed manufacturing overhead is never expensed
- Fixed manufacturing overhead is assigned to units of the product and expensed as the units are sold
The contribution format income statement requires that managers carefully distinguish between which of the following two types of costs?

- Variable and fixed
- Product and period
- Selling and administrative
- Direct and indirect

Your answer is correct.
When constructing segmented reports:

Your answer is correct.

- all costs should be allocated to the various segments
- some costs are not traceable to particular segments
Comfy Cozy Chairs makes and sells rockers. The production of each rocker requires $45 of direct materials and $37 of direct labor. Variable manufacturing overhead amounts to $8 per unit, and fixed manufacturing overhead totals $58,000. Variable selling and administrative costs amount to $15 per unit, and fixed selling and administrative costs total $102,000. During the period, 2,000 rockers were produced and 1,640 were sold. What is the unit product cost using absorption costing?

Unit product cost = $45 + $37 + $8 + ($58,000/2,000) = $119.
When preparing a contribution margin income statement (check all that apply):

- Your answer is correct.

- Cost of goods sold consists of only variable manufacturing costs
- Variable and fixed costs are listed in separate sections of the statement
- Fixed manufacturing costs are included in cost of goods sold
- A gross margin is computed
Match the costing methods with the appropriate income statement format used by each.

Your answer is correct.

Your answers:

- Absorption costing: Traditional format
- Variable costing: Contribution margin format
The correct answer is shown.

The number of units produced does *not* affect net operating income when using variable costing.
When a segment cannot cover its own costs on a properly constructed segmented income statement, then that segment:

- should be combined with another profitable segment.
- should probably be dropped.
- should recalculate its segment margin without including common fixed costs.
The correct answer is shown.

The use of variable costing can lead to the omission of segment costs because nonmanufacturing costs are not included as costs of a product.

This is also true for absorption costing which is widely used for external reporting.
The correct answer is shown.

Bart's Inc. operates retail stores in various cities. Each store sells various products. Segmented income statements are prepared for each store. Within each store, segmented income statements are further broken down by product line. The property tax for the store will be a(n) traceable fixed cost for the store, but a(n) common fixed cost for each product line sold in the store.

Your answer is correct.
Which of the following are advantages of using variable costing and the contribution approach for internal decision making? (Check all that apply.)

- It is required to be presented as part of GAAP financial statements.
- It is easy to explain changes in net income.
- It enables CVP analysis.
- It supports decision making.

Your answer is correct.
Variable costing net income may be computed by multiplying the number of units sold by the contribution margin per unit and subtracting total fixed costs.
What occurs when a cost that is directly traceable to Segment A is incorrectly allocated over several segments?

Your answer is correct.

Segment A's costs will be understated.

There is no direct effect on Segment A because the cost is being absorbed by other segments.

Segment A's revenues will be overstated.

Segment A's costs will be overstated.
Differences in net operating income between absorption costing and variable costing is due to the:

- timing of when fixed manufacturing overhead is expensed.

Your answer is correct.
The correct answer is shown.

Advocates of absorption costing believe fixed costs are an essential part of product production.

✔ Your answer is correct.
Absorption costing net operating income may not agree with the net operating income calculated for CVP analysis due to the way in which ______ is handled in absorption costing.

- direct labor cost
- fixed selling and administrative expense
- variable manufacturing overhead
- fixed manufacturing overhead

Your answer is correct.
The correct answer is shown.

Variable selling and administrative cost is $4 per unit sold, and fixed selling and administrative cost totals $48,400. A total of 429 units were produced and 297 units were sold. Total selling and administrative cost is $49,588.

Your answer is correct.

Total selling and administrative costs = ($4 x 297) + $48,400 = $49,588. Variable selling and administrative costs are incurred based on units sold, not units produced.
Decision-making problems that could occur as a result of treating fixed overhead similarly to a variable cost when using absorption costing include inappropriate _____ decisions, and decisions made to _____ products that are, in fact, profitable.

Your answer is correct.

- pricing; drop
- strategy; produce
- production; focus upon
- reporting; add
To support the TOC approach, which of the following must be done to the variable costing income statement?

- Your answer is correct.
- Report direct labor costs as part of fixed manufacturing overhead.
- Treat variable manufacturing overhead costs like they were fixed.
- Report direct material costs as part of fixed manufacturing overhead.
Which of the following statements is correct?

- It is important to avoid allocating common fixed costs to segments. **(Correct)**
- It is generally easy to determine if a fixed cost should be classified as traceable or common.
- Only costs that would disappear if a segment disappeared should be treated as common fixed costs.
- Charging traceable fixed costs to segments is optional.

Your answer is correct.
Costs should be allocated to segments for internal decision-making purposes:

- Your answer is correct.

  - equally over all segments
  - only when the allocation base actually drives the cost being allocated
  - even if the allocation base does not actually drive the cost
  - even when the cost is non-traceable, so that all costs will be considered in the decisions
SPS Products has two divisions—Catalog Sales and Online Sales. For the last quarter the Catalog Sales segment margin was ($5,000). Online sales were $100,000. Online Sales contribution margin was $60,000, and its segment margin was $40,000. If Catalog Sales are discontinued, it is estimated that online sales will increase by 10%. Calculate the expected profit impact of discontinuing Catalog Sales.

Your answer is correct.

- $5,000 increase
- $9,000 increase
- $11,000 increase
- $6,000 increase
Segmented income statements:

- Your answer is correct.

- are best used to determine which locations are profitable, rather than which product lines are profitable.
- should only be used for profit centers.
- may be prepared for the various departments in the company, but not for specific product lines.
- may be prepared for activities at many levels in a company.