**Chapter 2**

**Questions for Practice**

1. A review of accounts showed the following for Pacific Parts for last year:

Administrative costs . . . . . . . . . . . . . . . SR 1,216,000

Depreciation, manufacturing. . . . . . . . . . . . . 412,000

Direct labour . . . . . . . . . . . . . . . . . . . . . . . . . 1,928,000

Direct materials purchases . . . . . . . . . . . . . 1,252,000

Direct materials inventory, January 1 . . . . . 408,000

Direct materials inventory, December 31 . . . 324,000

Finished goods inventory, January 1. . . . . . . 640,000

Finished goods inventory, December 31. . . . 588,000

Heat, light, and power—plant . . . . . . . . . . . . 348,000

Marketing costs. . . . . . . . . . . . . . . . . . . . . . .1,088,000

Miscellaneous manufacturing costs . . . . . . . 48,000

Plant maintenance and repairs . . . . . . . . . . . 296,000

Sales revenue . . . . . . . . . . . . . . . . . . . . . . . . 8,144,000

Supervisory and indirect labour . . . . . . . . . . . 508,000

Supplies and indirect materials. . . . . . . . . . . 56,000

Work-in-process inventory, January 1. . . . . . 540,000

Work-in-process inventory, December 31... . . 568,000

Prepare an income statement with a supporting cost of goods manufactured and sold statement.

**Solution to 1.**

**PACIFIC PARTS**

**Income Statement**

Sales revenue . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . SR 8,144,000

Cost of goods sold (see following statement) . . . . . . . . . . 4,956,000

Gross margin. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . SR 3,188,000

Less

Marketing costs . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 1,088,000

Administrative costs. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 1,216,000

Operating profit . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .SR 884,000

**PACIFIC PARTS**

**Statement of Cost of Goods Manufactured and Sold**

Beginning work-in-process inventory, January 1..................... SR 540,000

Manufacturing costs during the year

Direct materials

Beginning inventory, January 1 . . . . . . . . SR 408,000

Add purchases . . . . . . . . . . . . . . . . . . . . . 1,252,000

Direct materials available . . . . . . . . . . SR 1,660,000

Less ending inventory, December 31 . . . 324,000

Direct materials put into production . ............... SR 1,336,000

Direct labour . . . . . . . . . . . . . . . . . . . .. ......... 1,928,000

Manufacturing overhead

Supervisory and indirect labour . . . SR 508,000

Supplies and indirect materials . . . . . . . . 56,000

Heat, light, and power—plant . . . . . . . . 348,000

Plant maintenance and repairs . . . . . . . 296,000

Depreciation—manufacturing . . . . . . . . 412,000

Miscellaneous manufacturing costs . . . . 48,000

Total manufacturing overhead . . . . . . . . . ...... SR 1,668,000

Total manufacturing costs incurred during the year . . . . . . SR 4,932,000

Total cost of work-in-process during the year . . . . . . . . . . . SR 5,472,000

Less-ending work-in-process inventory, December 31 . . . . . . 568,000

Cost of goods manufactured during the year . . . . . . . . . . . SR 4,904,000

Beginning finished goods inventory, January 1 . . . . . . . . . 640,000

Finished goods inventory available for sale . . . . . . . . . . . . SR 5,544,000

Less ending finished goods inventory, December 31 . . . . . 588,000

Cost of goods manufactured and sold . . . . . . . . . . . . . . . . . SR 4,956,000

**2.** Coastal Computer operates two retail outlets in Riyadh, one on Main Street and the other in Hara Mall. The stores share the use of a central accounting department. The cost of the accounting department for last year was SR 180,000. Following are the operating results for the two stores for the year:

Main Street Hara Mall

Sales revenue . . . . . . . . . . . . . . . . . . . . . . SR 1,000,000 SR 2,000,000

Number of computers sold . . . . . . . . . . . . 2,000 1,600

**Required**

**a.** Allocate the cost of the central accounting department to the two stores based on:

(1) Number of computers sold.

(2) Store revenue.

**b.** Draw a cost flow diagram to illustrate your answer to requirement (a), part (2).

3. Place the number of the appropriate definition in the blank next to each concept.

**Concept Definition**

Indirect cost 1. Cost that varies with the volume of activity.

Fixed cost 2. Lost benefit from the best forgone alternative.

Opportunity cost 3. Sacrifice of resources.

Outlay cost 4.Cost charged against revenue in a particular accounting period.

Expense 5. Cost that cannot be directly related to a cost object.

Cost 6. Cost that does not vary with the volume of activity Variable cost 7. Past, present, or near- future cash flow.