I. Please answer the following statements as either True or False.

1. Standards for comparison are necessary when making judgments about a company’s performance.

2. Comparative financial statements are reports that show financial amounts placed side by side in columns on a single statement for analysis purposes.

3. An advantage of common-size statements is that they reflect the relative sizes of different companies under analysis.

4. Working capital is computed as current liabilities minus current assets.

5. Both financial and managerial accounting affect people’s decisions and actions.

6. Direct materials are not usually easily traced to a product.

7. The main difference between the income statement of a manufacturer and a merchandiser is that the merchandiser includes cost of goods manufactured rather than cost of goods purchased.

8. Factory overhead includes selling and administrative expenses because they are indirect costs of a product.

9. Job order production costing would be appropriate for companies that produce training films for a specific customer or custom-make furniture to be used in a new five-star resort hotel.

10. When a job is finished, its job cost sheet is completed and moved from the file of jobs in process to the file of finished jobs that are yet to be delivered to customers.

11. The predetermined overhead application rate is used to apply overhead cost to products.

12. Overapplied or underapplied overhead should be removed from the Factory Overhead account at the end of each accounting period.

II. Complete the following statements with the proper word(s).

1. Horizontal analysis is described as ____________________________.
2. What is considered to be the best standard for comparison in financial statement analysis?

3. How does inventory turnover provide information about a company's short-term liquidity?

4. Provide two major differences between financial and managerial accounting.

5. A __________________ cost has already been incurred and cannot be avoided or changed, so it is irrelevant to decision making.

6. Expenditures incurred in the process of converting raw materials to finished goods, that include direct labor and factory overhead are known as __________________.

7. Product costs include three components: __________________, ________, and __________________.

8. What is the purpose of a job cost sheet?

9. Why is it necessary for a company to estimate factory overhead costs as the company completes jobs during the year?

10. List two service type businesses that should use job order costing.
III. Select the best answer to the following statements.

1. External users of financial information:
   a. are those individuals involved in managing and operating the company
   b. include internal auditors and consultants
   c. are not directly involved in operating the company
   d. make strategic decisions for a company
   e. make operating decisions for a company

2. Financial statement analysis:
   a. is the application of analytical tools to general-purpose financial statements and related data for making business decisions
   b. involves transforming accounting data into useful information for decision-making
   c. helps users to make better decisions
   d. helps to reduce uncertainty in decision-making
   e. all of the above

3. The comparison of a company's financial condition and performance to a base amount is known as:
   a. financial reporting
   b. horizontal analysis
   c. investment analysis
   d. risk analysis
   e. vertical analysis

4. Which of the following items is not likely an extraordinary item?
   a. condemnation of property by the city government
   b. loss of use of property due to a new and unexpected environmental regulation
   c. loss from an unexpected union strike
   d. loss due to an earthquake in Florida
   e. expropriation of property by a foreign government

5. Goods a company acquires to use in making products are called:
   a. cost of goods sold
   b. raw materials inventory
   c. finished goods inventory
   d. goods in process inventory
   e. conversion costs

6. The cost of labor that is not clearly associated with specific units or batches of product is called:
   a. unspecified labor
   b. direct labor
   c. indirect labor
   d. basic labor
   e. joint labor
7. Which of the following costs would not be classified as factory overhead?
   a. property taxes on maintenance machinery
   b. expired insurance on factory equipment
   c. wages of the factory janitor
   d. metal doorknobs used on wood cabinets produced
   e. small tools used in production

8. A source document that production managers use to request materials for production and that is used to assign materials costs to specific jobs or to overhead is a:
   a. job cost sheet
   b. production order
   c. materials requisition
   d. material purchase order
   e. receiving report

9. The overhead cost applied to a job during a period is recorded with a credit to Factory Overhead and a debit to:
   a. Jobs Overhead Expense
   b. Cost of Goods Sold
   c. Finished Goods Inventory
   d. Indirect Labor
   e. Goods in Process Inventory

10. The amount by which overhead incurred during a period exceeds the overhead applied to jobs is:
    a. balanced overhead
    b. predetermined overhead
    c. actual overhead
    d. underapplied overhead
    e. overapplied overhead

IV. Essay
1. Identify and describe three common tools of financial statement analysis.

2. What are the three types of inventories carried by manufacturing companies? Describe each one.
V. Selected year-end financial statements of Cadet Corporation follow. (All sales were on credit, selected balance sheet amounts at December 31, 2008, were accounts receivable, $32,600; notes receivable (trade), $5,500; inventory, $56,900; total assets, $219,400; common stock, $85,000; and retained earnings, $52,348.)

Selected year-end financial statements of Cadet Corporation follow. (All sales were on credit, selected balance sheet amounts at December 31, 2008, were inventory, $56,900; total assets, $219,400; common stock, $85,000; and retained earnings, $52,348.)

### CADET CORPORATION
#### Income Statement
For Year Ended December 31, 2009

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$456,600</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>297,450</td>
</tr>
<tr>
<td>Gross profit</td>
<td>159,150</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>99,400</td>
</tr>
<tr>
<td>Interest expense</td>
<td>3,900</td>
</tr>
<tr>
<td>Income before taxes</td>
<td>55,850</td>
</tr>
<tr>
<td>Income taxes</td>
<td>22,499</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$33,351</strong></td>
</tr>
</tbody>
</table>

### CADET CORPORATION
#### Balance Sheet
December 31, 2009

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$20,000</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>8,200</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>29,400</td>
</tr>
<tr>
<td>Notes receivable (trade)*</td>
<td>7,000</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>34,150</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,700</td>
</tr>
<tr>
<td>Plant assets, net</td>
<td>147,300</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$248,750</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$21,500</td>
</tr>
<tr>
<td>Accrued wages payable</td>
<td>4,400</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>3,700</td>
</tr>
<tr>
<td>Long-term note payable, secured</td>
<td></td>
</tr>
<tr>
<td>by mortgage on plant assets</td>
<td>67,400</td>
</tr>
<tr>
<td>Common stock</td>
<td>85,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>66,750</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>$248,750</strong></td>
</tr>
</tbody>
</table>

1. Current ratio
2. Quick Ratio
3. Accounts receivable turnover
4. Inventory turnover
5. Days’ sales in inventory
6. Days’ sales uncollected
7. Profit margin ratio
8. Debt-to-equity ratio
9. Return on common stockholders’ equity
10. Return on total assets

SHOW FORMULAS!
VI. Summertime Corp uses a job order cost accounting system. The following is selected information pertaining to costs applied to jobs during the year.

Jobs still in process at the end of the year:
$167,000, which includes $65,000 direct labor costs

Jobs finished and sold during the year:
$395,000, which includes $172,000 direct labor costs

Jobs finished but unsold at end of the year:
$103,000, which includes $38,000 direct labor costs

Summertime’s predetermined overhead allocation rate is 60% of direct labor cost. At the end of the year, the company’s records show that $189,000 of factory overhead has been incurred.

a. Determine the amount of overapplied or underapplied overhead.
b. Prepare the necessary journal entry to close the Factory Overhead account assuming that any remaining balance is not material.

VII. Prepare journal entries to record the following transactions for Montana Memories, Inc., which uses a job order costing system. (Use general journal on the next page!)

a. Purchased raw materials on credit, $74,500
b. Raw materials requisitioned: $29,300 direct and $4,900 indirect
c. Factory payroll totaled $53,900 (paid in cash), including $11,400 indirect labor.
   Allocate the direct labor and indirect labor to the proper accounts. (2nd entry)
d. Paid other actual factory overhead costs totaling $19,600 in cash
e. Applied overhead totaling $31,750
f. Finished and transferred jobs totaling $82,150
g. Jobs costing $60,375 were sold on credit for $119,000
VII. Continued

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles and Explanation</th>
<th>P. R.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
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</tr>
<tr>
<td>(d)</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>(e)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
VIII. Use the following information to prepare the manufacturing statement for Trailhead, Inc. for the month ended June 30, 2009:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods in process inventory, May 31, 2009</td>
<td>$12,600</td>
</tr>
<tr>
<td>Goods in process inventory, June 30, 2009</td>
<td>16,500</td>
</tr>
<tr>
<td>Direct materials used during June</td>
<td>21,000</td>
</tr>
<tr>
<td>Direct labor used in June</td>
<td>31,000</td>
</tr>
<tr>
<td>Factory overhead:</td>
<td></td>
</tr>
<tr>
<td>Indirect material</td>
<td>6,400</td>
</tr>
<tr>
<td>Indirect labor</td>
<td>9,200</td>
</tr>
<tr>
<td>Factory rent</td>
<td>12,000</td>
</tr>
<tr>
<td>Factory depreciation</td>
<td>15,000</td>
</tr>
<tr>
<td>Factory utilities</td>
<td>18,400</td>
</tr>
</tbody>
</table>