

STUDY GUIDE QUESTIONS**PART 1 True/False**

For each of the following statements, circle T if the statement is true and F if the statement is false.

- T F 1. Indirect expenses are generally not subject to the control of the department manager.
- T F 2. A work sheet showing income from operations by departments should include sets of Income Statement columns for each department plus a set of nondepartmentalized Income Statement columns.
- T F 3. Departmental margin equals gross profit minus direct expenses.
- T F 4. A departmentalized sales journal will require an Accounts Receivable Debit column for each department.
- T F 5. If a department covers its direct expenses but not all its indirect expenses, the firm can increase its income before taxes if it discontinues the department.
- T F 6. Other Income and Other Expenses accounts are departmentalized in the same way other accounts are departmentalized.
- T F 7. If direct expenses were not in existence, the expense related to that department would not exist.
- T F 8. Departmentalizing net purchases requires recording Purchases Returns and Allowances, Purchases Discount, and Freight In by departments.
- T F 9. The only accounts that departments must keep to compute gross profit by departments are Sales and Purchases.
- T F 10. A company having three departments may have a Debit column in the purchases journal for each of the three departments.

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- Allocating or dividing operating expenses among operating departments is known as _____.
- _____ expenses are those expenses that benefit only one department and are controlled by the head of the department.
- The gross profit of a department minus the department's direct expenses is known as _____.
- _____ expenses are those expenses that benefit the business as a whole and are not under the control of any one department.

PART 3 Matching

For each numbered item, choose an appropriate basis for apportionment for departmentalization, and write the identifying letter in the answer column.

- A. Floor space occupied
 - B. Time devoted to departments
 - C. Departmental sales
 - D. Average cost of inventory
- _____ 1. Rent Expense
- _____ 2. Sales Salary Expense
- _____ 3. Property tax on building
- _____ 4. Bad Debts Expense
- _____ 5. Office Salary Expense
- _____ 6. Officers' Salary Expense
- _____ 7. Depreciation Expense, Building
- _____ 8. Insurance on merchandise
- _____ 9. Cost of neon sign displaying the firm's name
- _____ 10. Cost of Receiving Department

PART 4 Determining Direct and Indirect Expenses

For each of the following expenses incurred by a department, write D if the expense is direct or I if the expense is indirect:

- _____ 1. Sales representatives' commissions
- _____ 2. Property tax on land/building
- _____ 3. Personal property tax on inventories
- _____ 4. Tissue paper, plastic sacks, paper bags
- _____ 5. President's salary
- _____ 6. Wages of night security guard
- _____ 7. Miscellaneous selling expenses