

Acct 2301 (Spring 2006) - Final Exam

Student:

1. Fixed cost per unit

- A. decreases as volume decreases.
- B. is not affected by changes in the volume.
- C. increases as production volume increases.
- D. decreases as production volume increases.
- E. none of the above.

2. Banyon Company has a contribution margin ratio of 25%. The company plans for sales to increase \$25,000 during the next accounting period. Fixed costs are expected to increase by \$5,000. Banyon expects net income to increase by

- A. \$6,250.
- B. \$18,750.
- C. \$0.
- D. \$13,750.
- E. \$1,250.

3. Maverick Company has completed its sales budget for the first quarter of 2005. Projected unit credit sales for this quarter are shown below:

January	1,000
February	1,200
March	1,500
April	1,600

The company's past records show collection of credit sales as follows: 30% in the month of sale and the balance in the following month. If inventory units are sold for \$20, the amount of accounts receivable at the end of March would be

- A. \$30,000
- B. \$25,800
- C. \$21,000
- D. \$ 9,000
- E. None of the above

4. Newbie Corporation produces widgets. The direct material cost per widget is \$10. Direct labor cost is \$8 per widget. On January 1st, the company expected to incur \$50,000 of overhead to produce 10,000 widgets. What is the cost per unit if 500 units are made in July?
- A. \$10
 - B. \$13
 - C. \$18
 - D. \$33
 - E. None of the above.
5. It's been a long semester, and a question on the final exam isn't the best place to ask this, but try to reflect on the semester as a whole. How has this course influenced your feeling about accounting?
- A. I like accounting much better relative to the beginning of the course.
 - B. I like accounting a little bit better relative to the beginning of the course.
 - C. I have the same feelings about accounting as I did at the beginning of the course.
 - D. I like accounting a little bit less relative to the beginning of the course.
 - E. I like accounting a lot less relative to the beginning of the course.
6. Skyland Company wants an ending inventory each month equal to 20% of that month's cost of sales. Cost of sales for January and February are projected at \$80,000 and \$90,000, respectively. Based on this information purchases for February will be:
- A. \$88,000
 - B. \$90,000
 - C. \$92,000
 - D. \$95,000
 - E. There is not enough information to determine.
7. During January, Greene Company's employees worked 3,520 hours. Greene Co. expects 42,000 hours to be worked during the year. The company expects to incur \$168,000 in fringe benefits for the year. How much of the fringe benefits needs to be allocated to the products made in January? (in total - not per unit)
- A. \$15,000
 - B. \$14,080
 - C. \$14,000
 - D. \$0
 - E. None of the above.

8. Smith and Associates had net income of \$50,000 during 2005. The company incurred \$30,000 of total variable cost and \$40,000 of fixed cost. What is the company's operating leverage for 2005?
- A. 1.0
 - B. 1.4
 - C. 1.8
 - D. 2.0
 - E. None of the above
9. Hill Company breaks even when sales reach \$50,000. The units are sold for \$5 each. The variable cost per unit is \$2. What is Hill Company's fixed cost?
- A. \$10,000
 - B. \$25,000
 - C. \$30,000
 - D. \$50,000
 - E. There is not enough information to determine.
10. In 2004, Peter's Plumbing paid \$20,000 for a new machine that has a 10 year useful life and no salvage value. The new machine increased annual cash inflows by \$5,000 per year. Peter has a desired rate of return of 12% on all investments. The net present value of this investment is which of the following? (round to the nearest dollar)
- A. \$28,251
 - B. \$25,000
 - C. \$11,000
 - D. \$ 8,251
 - E. None of the above
11. Select the correct statement from the following assuming Camacho Company had a favorable direct materials price variance of \$2,500 and an unfavorable direct materials usage variance of \$1,000.
- A. The total direct materials variance is \$3,500 favorable.
 - B. The total direct materials variance is \$3,500 unfavorable.
 - C. The total direct materials variance is \$1,500 favorable.
 - D. The total direct materials variance is \$1,500 unfavorable.
 - E. None of the above.

12. The Storyteller Publishing Company produces and sells books to local bookstores. The company currently produces and sells 20,000 copies of books each month. The company has the capacity to produce 26,000 copies per month. The books normally sell for \$15 each. Billy's Bookstore has offered to buy 4,000 books for \$10 each. Unit-level costs are \$4 for direct labor and \$5 for direct materials. There is no unit-level overhead cost. Product-level and facility-sustaining costs are \$15,000 and \$21,000 each. Should Storyteller accept this special order? (Ignore qualitative factors.)
- A. Yes, because profits will increase.
 - B. No, because profits will decrease.
 - C. If accepted, there will be no change in profits, so it doesn't matter.
 - D. No, because the special order will cause the company to exceed its production capacity for the month.
 - E. There is not enough information to determine.
13. The Washington Corporation was started on January 1, 2005. The company incurred the following transactions during the year (Assume all transactions involve cash):
- 1.) Acquired \$1,000 of capital from the owners.
 - 2.) Purchased \$300 of direct raw materials.
 - 3.) Used \$200 of these direct raw materials in the production process.
 - 4.) Paid production workers \$400 cash.
 - 5.) Paid \$200 for manufacturing overhead (applied and actual overhead are the same).
 - 6.) Started and completed 200 units of inventory.
 - 7.) Sold 50 units at a price of \$6 each.
 - 8.) Paid \$40 for selling and administrative expenses.
- The balance in work in process inventory at December 31, 2005 is
- A. \$800
 - B. \$600
 - C. \$200
 - D. \$ 0
 - E. None of the above

14. In January 2005, Johannesburg Company estimated that its manufacturing employees would work 80,000 direct labor hours and would incur \$580,000 in overhead costs. During the year the company actually worked 75,000 direct labor hours. Actual manufacturing overhead costs amounted to \$550,000. Johannesburg applies overhead based on direct labor hours. Based on this information, overhead was
- A. overapplied by \$6,250.
 - B. underapplied by \$6,250.
 - C. overapplied by \$30,000.
 - D. underapplied by \$30,000.
 - E. None of the above
15. Hand L. Barr Company makes steel and titanium handle bars for bicycles. It requires approximately 2 hours of labor to make one handle bar of either type. During the most recent accounting period Hand L. Barr Company made 9,000 steel bars and 6,000 titanium bars. Setup costs amounted to \$50,000. One batch of each type of bar was run each month. If activity-based costing is used to allocate overhead costs to the two products, the amount of setup cost assigned to the titanium bars will be
- A. \$20,000
 - B. \$25,000
 - C. \$30,000
 - D. \$35,000
 - E. None of the above

16. The following balance sheet information is provided for West End Company:

Assets	
Cash	\$ 4,000
Accounts receivable	10,150
Inventory	14,000
Plant and equipment, net of depreciation	19,500
Land	<u>12,600</u>
Total assets	<u>\$60,250</u>
 Liabilities and Stockholders' Equity	
Accounts payable	\$ 2,310
Salaries payable	9,030
Bonds payable (due 2020)	8,000
Capital stock, no par	20,910
Retained earnings	<u>20,000</u>
Total liabilities and stockholders' equity	<u>\$60,250</u>

What is the company's plant assets to long-term debt ratio? (round to two decimal places)

- A. 7.53
- B. 4.52
- C. 2.44
- D. 1.88
- E. 0.96

17. Judson Company has an investment in assets of \$900,000, an income that is 10% of sales and an ROI of 18%. From this information the amount of income would be

- A. \$ 162,000
- B. \$12,000,000
- C. \$ 5,000,000
- D. \$ 1,620,000
- E. None of the above.

18. Fred is considering investing in a real estate investment. Fred would like to earn a rate of return of 12%. Market research shows that Fred will receive \$30,000 cash per year for 8 years. What should Fred pay for this investment? (rounded to the nearest dollar)

- A. \$136,913
- B. \$149,029
- C. \$159,848
- D. \$226,082
- E. None of the above.

19. Tina purchased a concert ticket for \$80. The concert sold out. Tony offered Tina \$120 for her ticket, but Tina declined. Then Tammy offered Tina only \$100 for the ticket. Tina also declined this offer. What is Tina's sunk cost?
- A. \$80
 B. \$100
 C. \$120
 D. \$220
 E. None of the above.
20. During 2005, Bud's Backyard Equipment was at its highest point in the month of June when 90 bar-b-que pits were produced at a total cost of \$12,000. The low point was in January when 20 pits were produced at a total cost of \$3,600. Using the high/low method, the amount of variable cost per unit is
- A. \$180
 B. \$140
 C. \$133
 D. \$120
 E. None of the above
21. The following balance sheet information is provided for Quinton Company:

Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 2,250	\$ 1,500
Accounts receivable	\$15,000	\$13,000
Inventory	\$24,500	\$32,000

Assuming cost of goods sold is \$110,000, what is the company's inventory turnover? (round to one decimal place)

- A. 3.4
 B. 3.9
 C. 4.5
 D. 5.2
 E. 5.5

22. Lila Lou Company made 10,000 dog bowls and sold 8,000 during its most recent accounting period. If management misclassified a general, selling, and admin expense as a product cost, the mistake would
- cause net income to be overstated.
 - cause net income to be understated.
 - cause ending inventory to be understated.
 - have no effect on net income.
 - have no effect on ending inventory.
23. Elk Manufacturing uses a job order cost system and overhead is applied on the basis of direct labor hours. At the beginning of the period, the company estimated that overhead would be \$32,000 and 10,000 direct labor hours would be worked. Two projects were started and completed in the current accounting period. The following transactions were completed during the period:
- Used \$5,000 of direct material on Project I and \$3,400 of direct material on Project II.
 - Labor costs for the two jobs amounted to the following: Project I, \$12,000 (2,000 hours); Project II, \$22,000 (6,000 hours).
 - Project II was sold during the period for \$60,000.
- The amount of cost of goods sold for the period would be:
- \$ 0
 - \$23,400
 - \$44,600
 - \$68,000
 - None of the above

24. The following balance sheet information was provided by Preston Company:

Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 2,000	\$ 1,500
Accounts receivable	\$15,000	\$13,000
Inventory	\$24,000	\$30,000

Assuming net credit sales totaled \$127,750, what is the company's average days to collect receivables?

- 9.125 days
- 40 days
- 80 days
- 90 days
- None of the above

25. Littlejohn Company reported net income of \$100,000 on sales of \$500,000. The company has total assets of \$800,000 and total liabilities of \$300,000. What is the company's return on equity ratio?

- A. 12.5%
- B. 20.0%
- C. 33.3%
- D. 62.5%
- E. None of the above

26. Major Manufacturing is currently working on two jobs. The job order cost sheets for Job 101 and Job 102 showed the following information:

	<u>Job 101</u>	<u>Job 102</u>
Direct Materials	\$10,000	\$15,000
Direct Labor	\$25,000	\$40,000

If overhead is applied to jobs at \$0.70 per direct labor dollar, how much manufacturing overhead is allocated to Job 101?

- A. \$15,000
- B. \$27,500
- C. \$28,000
- D. \$35,000
- E. None of the above

27. The following balance sheet information is provided for Northrup Company:

Assets	
Cash	\$ 4,000
Accounts receivable	10,150
Inventory	14,000
Plant and equipment, net of depreciation	19,500
Land	<u>12,600</u>
Total assets	<u>\$60,250</u>
Liabilities and Stockholders' Equity	
Accounts payable	\$ 2,310
Salaries payable	9,030
Bonds payable (due 2020)	8,000
Capital stock, no par	20,910
Retained earnings	<u>20,000</u>
Total liabilities and stockholders' equity	<u>\$60,250</u>

What is the company's quick (acid-test) ratio? (round to two decimal places)

- A. 0.70
 - B. 1.25
 - C. 1.52
 - D. 2.48
 - E. None of the above
28. During 2005, Goose Incorporated had a margin of 7%. The company's turnover was 2. What was Goose Inc.'s ROI for 2005?
- A. 2%
 - B. 7%
 - C. 24%
 - D. 28%
 - E. None of the above.
29. Logan Manufacturing has three departments. Department 1 employs 20 people and occupies 2,000 square feet. Department 2 employs 10 people and occupies 1,500 square feet. Department 3 employs 15 people and occupies 2,500 square feet. Logan pays \$60,000 for rent annually for the manufacturing plant. How much rent should be allocated to Department 2?
- A. \$0
 - B. \$10,000
 - C. \$13,333
 - D. \$15,000
 - E. \$25,000

30. Criticality Company has the opportunity to purchase an asset that costs \$45,000. The asset is expected to increase cash flow by \$15,000 per year. Based on this information the payback period is
- A. 30 years.
 - B. 2.25 years.
 - C. 2.5 years.
 - D. 9 years.
 - E. None of the above.
31. Ralph Brothers makes a product that is expected to require the use of 3 hours of labor per unit of product. The standard cost of labor is \$7.25. Ralph actually used 3.2 hours of labor per unit of product. The actual cost of labor was \$7.00 per hour. Ralph actually made 5,000 units of product during the period. Based on this information alone, the labor usage (i.e., efficiency) variance is
- A. \$7,250 favorable.
 - B. \$7,250 unfavorable.
 - C. \$7,000 favorable.
 - D. \$7,000 unfavorable.
 - E. None of the above.
32. Up, Up & Away produces and sells kites. At the beginning of 2005, the company expected to sell 5,000 kites for \$8 each. The company actually sold 6,000 kites for \$7.75 each. Based on this information alone, the sales price variance is
- A. \$1,250 favorable
 - B. \$1,250 unfavorable
 - C. \$1,500 favorable
 - D. \$1,500 unfavorable
 - E. There is not enough information to determine.
33. During 2005, Big Boy Incorporated paid \$5,000 for raw materials and \$3,000 for production workers' wages. Rent on the facility was \$6,000. Big Boy paid \$3,000 for general, selling, and admin expenses. The company produced 14,000 gadgets and sold 10,000 for \$1.75 each. What is the amount of net income for 2005?
- A. \$7,500
 - B. \$4,500
 - C. \$3,500
 - D. (\$500)
 - E. None of the above

34. Johansson Company developed the following static (i.e., master) budget at the beginning of the company's accounting period:

Revenue (8,000 units)	\$16,000
Variable Costs	<u>4,000</u>
Contribution Margin	\$12,000
Fixed Costs	<u>4,000</u>
Net income	<u>\$ 8,000</u>

If actual production totals 7,800 units, the flexible budget would show variable costs of

- A. \$15,600
 - B. \$15,000
 - C. \$4,000
 - D. \$3,900
 - E. None of the above
35. Rustic Furniture Company makes two types of chairs. One of the chairs is a rocking chair. The other is a straight-back chair. Both chairs are made by hand. Rustic Furniture Company uses a company-wide overhead rate that is based on direct labor hours to assign overhead costs to the two products. The overhead allocation based on direct labor hours is reasonably accurate. If Rustic automates the production of rocking chairs only and continues to use direct labor hours as a company-wide allocation basis,
- A. rocking chairs will be under-costed.
 - B. straight back chairs will be over-costed.
 - C. rocking chairs will be over-costed
 - D. A and B are correct.
 - E. B and C are correct.
36. Silly Sally plans on selling 12,000 spinners during 2006. The variable cost per unit is \$4. Fixed costs will total \$20,000 for the year. Sally would like to report net income of \$28,000 for the year. How much should Sally sell each spinner for in order to earn her desired profit?
- A. \$2.33
 - B. \$5.67
 - C. \$6.33
 - D. \$8.00
 - E. There is not enough information to determine.

37. Which of the following is the approximate internal rate of return for an investment that costs \$24,182 and provides \$3,000 each year for 15 years?
- A. 7%
 - B. 8%
 - C. 9%
 - D. 10%
 - E. 12%
38. Leland Company has cash of \$15,000, accounts receivable of \$22,000, inventory of \$12,000, and, equipment of \$80,000. Assuming current liabilities of \$32,000, this company's working capital is
- A. \$ 5,000.
 - B. \$17,000.
 - C. \$22,000.
 - D. \$72,000.
 - E. None of the above.
39. Which of the following is NOT manufacturing overhead?
- A. Indirect labor
 - B. Utilities for factory
 - C. Raw materials used in production process
 - D. Rent for manufacturing facility
 - E. None of the above
40. Peach Company made a \$100,000 investment in new machinery. The company desires a return of 12% on all investments. The new investment will generate sales of \$400,000. Assuming the company's margin is 4%, what is the amount of residual income from the new investment?
- A. \$ 4,000.
 - B. \$12,000.
 - C. \$16,000.
 - D. \$0.
 - E. There is not enough information.

Acct 2301 (Spring 2006) - Final Exam **Key**

1. Fixed cost per unit

- a. decreases as volume decreases.
- b. is not affected by changes in the volume.
- c. increases as production volume increases.
- D.** decreases as production volume increases.
- e. none of the above.

2. Banyon Company has a contribution margin ratio of 25%. The company plans for sales to increase \$25,000 during the next accounting period. Fixed costs are expected to increase by \$5,000. Banyon expects net income to increase by

- a. \$6,250.
- b. \$18,750.
- c. \$0.
- d. \$13,750.
- E.** \$1,250.

3. Maverick Company has completed its sales budget for the first quarter of 2005. Projected unit credit sales for this quarter are shown below:

January	1,000
February	1,200
March	1,500
April	1,600

The company's past records show collection of credit sales as follows: 30% in the month of sale and the balance in the following month. If inventory units are sold for \$20, the amount of accounts receivable at the end of March would be

- a. \$30,000
- b. \$25,800
- C.** \$21,000
- d. \$ 9,000
- e. None of the above

4. Newbie Corporation produces widgets. The direct material cost per widget is \$10. Direct labor cost is \$8 per widget. On January 1st, the company expected to incur \$50,000 of overhead to produce 10,000 widgets. What is the cost per unit if 500 units are made in July?
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 - c. \$18
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- a. \$88,000
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 - C.** \$92,000
 - d. \$95,000
 - e. There is not enough information to determine.
7. During January, Greene Company's employees worked 3,520 hours. Greene Co. expects 42,000 hours to be worked during the year. The company expects to incur \$168,000 in fringe benefits for the year. How much of the fringe benefits needs to be allocated to the products made in January? (in total - not per unit)
- a. \$15,000
 - B.** \$14,080
 - c. \$14,000
 - d. \$0
 - e. None of the above.

8. Smith and Associates had net income of \$50,000 during 2005. The company incurred \$30,000 of total variable cost and \$40,000 of fixed cost. What is the company's operating leverage for 2005?
- a. 1.0
 - b. 1.4
 - C.** 1.8
 - d. 2.0
 - e. None of the above
9. Hill Company breaks even when sales reach \$50,000. The units are sold for \$5 each. The variable cost per unit is \$2. What is Hill Company's fixed cost?
- a. \$10,000
 - b. \$25,000
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10. In 2004, Peter's Plumbing paid \$20,000 for a new machine that has a 10 year useful life and no salvage value. The new machine increased annual cash inflows by \$5,000 per year. Peter has a desired rate of return of 12% on all investments. The net present value of this investment is which of the following? (round to the nearest dollar)
- a. \$28,251
 - b. \$25,000
 - c. \$11,000
 - D.** \$ 8,251
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11. Select the correct statement from the following assuming Camacho Company had a favorable direct materials price variance of \$2,500 and an unfavorable direct materials usage variance of \$1,000.
- a. The total direct materials variance is \$3,500 favorable.
 - b. The total direct materials variance is \$3,500 unfavorable.
 - C.** The total direct materials variance is \$1,500 favorable.
 - d. The total direct materials variance is \$1,500 unfavorable.
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12. The Storyteller Publishing Company produces and sells books to local bookstores. The company currently produces and sells 20,000 copies of books each month. The company has the capacity to produce 26,000 copies per month. The books normally sell for \$15 each. Billy's Bookstore has offered to buy 4,000 books for \$10 each. Unit-level costs are \$4 for direct labor and \$5 for direct materials. There is no unit-level overhead cost. Product-level and facility-sustaining costs are \$15,000 and \$21,000 each. Should Storyteller accept this special order? (Ignore qualitative factors.)

- A.** Yes, because profits will increase.
- b. No, because profits will decrease.
- c. If accepted, there will be no change in profits, so it doesn't matter.
- d. No, because the special order will cause the company to exceed its production capacity for the month.
- e. There is not enough information to determine.

13. The Washington Corporation was started on January 1, 2005. The company incurred the following transactions during the year (Assume all transactions involve cash):

- 1.) Acquired \$1,000 of capital from the owners.
- 2.) Purchased \$300 of direct raw materials.
- 3.) Used \$200 of these direct raw materials in the production process.
- 4.) Paid production workers \$400 cash.
- 5.) Paid \$200 for manufacturing overhead (applied and actual overhead are the same).
- 6.) Started and completed 200 units of inventory.
- 7.) Sold 50 units at a price of \$6 each.
- 8.) Paid \$40 for selling and administrative expenses.

The balance in work in process inventory at December 31, 2005 is

- a. \$800
- b. \$600
- c. \$200
- D.** \$ 0
- e. None of the above

14. In January 2005, Johannesburg Company estimated that its manufacturing employees would work 80,000 direct labor hours and would incur \$580,000 in overhead costs. During the year the company actually worked 75,000 direct labor hours. Actual manufacturing overhead costs amounted to \$550,000. Johannesburg applies overhead based on direct labor hours. Based on this information, overhead was
- a. overapplied by \$6,250.
 - B.** underapplied by \$6,250.
 - c. overapplied by \$30,000.
 - d. underapplied by \$30,000.
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16. The following balance sheet information is provided for West End Company:

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Total liabilities and stockholders' equity	<u>\$60,250</u>

What is the company's plant assets to long-term debt ratio? (round to two decimal places)

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- b. 4.52
- C.** 2.44
- d. 1.88
- e. 0.96

17. Judson Company has an investment in assets of \$900,000, an income that is 10% of sales and an ROI of 18%. From this information the amount of income would be

- A.** \$ 162,000
- b. \$12,000,000
- c. \$ 5,000,000
- d. \$ 1,620,000
- e. None of the above.

18. Fred is considering investing in a real estate investment. Fred would like to earn a rate of return of 12%. Market research shows that Fred will receive \$30,000 cash per year for 8 years. What should Fred pay for this investment? (rounded to the nearest dollar)

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- A.** \$80
- b. \$100
- c. \$120
- d. \$220
- e. None of the above.

20. During 2005, Bud's Backyard Equipment was at its highest point in the month of June when 90 bar-b-que pits were produced at a total cost of \$12,000. The low point was in January when 20 pits were produced at a total cost of \$3,600. Using the high/low method, the amount of variable cost per unit is

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- b. \$140
- c. \$133
- D.** \$120
- e. None of the above

21. The following balance sheet information is provided for Quinton Company:

Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 2,250	\$ 1,500
Accounts receivable	\$15,000	\$13,000
Inventory	\$24,500	\$32,000

Assuming cost of goods sold is \$110,000, what is the company's inventory turnover? (round to one decimal place)

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- B.** 3.9
- c. 4.5
- d. 5.2
- e. 5.5

22. Lila Lou Company made 10,000 dog bowls and sold 8,000 during its most recent accounting period. If management misclassified a general, selling, and admin expense as a product cost, the mistake would

- A.** cause net income to be overstated.
- b. cause net income to be understated.
- c. cause ending inventory to be understated.
- d. have no effect on net income.
- e. have no effect on ending inventory.

23. Elk Manufacturing uses a job order cost system and overhead is applied on the basis of direct labor hours. At the beginning of the period, the company estimated that overhead would be \$32,000 and 10,000 direct labor hours would be worked. Two projects were started and completed in the current accounting period. The following transactions were completed during the period:

- (1) Used \$5,000 of direct material on Project I and \$3,400 of direct material on Project II.
- (2) Labor costs for the two jobs amounted to the following: Project I, \$12,000 (2,000 hours); Project II, \$22,000 (6,000 hours).
- (3) Project II was sold during the period for \$60,000.

The amount of cost of goods sold for the period would be:

- a. \$ 0
- b. \$23,400
- C.** \$44,600
- d. \$68,000
- e. None of the above

24. The following balance sheet information was provided by Preston Company:

Assets	<u>2003</u>	<u>2002</u>
Cash	\$ 2,000	\$ 1,500
Accounts receivable	\$15,000	\$13,000
Inventory	\$24,000	\$30,000

Assuming net credit sales totaled \$127,750, what is the company's average days to collect receivables?

- a. 9.125 days
- B.** 40 days
- c. 80 days
- d. 90 days
- e. None of the above

25. Littlejohn Company reported net income of \$100,000 on sales of \$500,000. The company has total assets of \$800,000 and total liabilities of \$300,000. What is the company's return on equity ratio?

- a. 12.5%
- B.** 20.0%
- c. 33.3%
- d. 62.5%
- e. None of the above

26. Major Manufacturing is currently working on two jobs. The job order cost sheets for Job 101 and Job 102 showed the following information:

	<u>Job 101</u>	<u>Job 102</u>
Direct Materials	\$10,000	\$15,000
Direct Labor	\$25,000	\$40,000

If overhead is applied to jobs at \$0.70 per direct labor dollar, how much manufacturing overhead is allocated to Job 101?

- a. \$15,000
- b. \$27,500
- c. \$28,000
- d. \$35,000
- E.** None of the above

27. The following balance sheet information is provided for Northrup Company:

Assets	
Cash	\$ 4,000
Accounts receivable	10,150
Inventory	14,000
Plant and equipment, net of depreciation	19,500
Land	<u>12,600</u>
Total assets	<u>\$60,250</u>
Liabilities and Stockholders' Equity	
Accounts payable	\$ 2,310
Salaries payable	9,030
Bonds payable (due 2020)	8,000
Capital stock, no par	20,910
Retained earnings	<u>20,000</u>
Total liabilities and stockholders' equity	<u>\$60,250</u>

What is the company's quick (acid-test) ratio? (round to two decimal places)

- a. 0.70
- B.** 1.25
- c. 1.52
- d. 2.48
- e. None of the above

28. During 2005, Goose Incorporated had a margin of 7%. The company's turnover was 2. What was Goose Inc.'s ROI for 2005?

- a. 2%
- b. 7%
- c. 24%
- d. 28%
- E.** None of the above.

29. Logan Manufacturing has three departments. Department 1 employs 20 people and occupies 2,000 square feet. Department 2 employs 10 people and occupies 1,500 square feet. Department 3 employs 15 people and occupies 2,500 square feet. Logan pays \$60,000 for rent annually for the manufacturing plant. How much rent should be allocated to Department 2?

- a. \$0
- b. \$10,000
- c. \$13,333
- D.** \$15,000
- e. \$25,000

30. Criticality Company has the opportunity to purchase an asset that costs \$45,000. The asset is expected to increase cash flow by \$15,000 per year. Based on this information the payback period is
- a. 30 years.
 - b. 2.25 years.
 - c. 2.5 years.
 - d. 9 years.
 - E.** None of the above.
31. Ralph Brothers makes a product that is expected to require the use of 3 hours of labor per unit of product. The standard cost of labor is \$7.25. Ralph actually used 3.2 hours of labor per unit of product. The actual cost of labor was \$7.00 per hour. Ralph actually made 5,000 units of product during the period. Based on this information alone, the labor usage (i.e., efficiency) variance is
- a. \$7,250 favorable.
 - B.** \$7,250 unfavorable.
 - c. \$7,000 favorable.
 - d. \$7,000 unfavorable.
 - e. None of the above.
32. Up, Up & Away produces and sells kites. At the beginning of 2005, the company expected to sell 5,000 kites for \$8 each. The company actually sold 6,000 kites for \$7.75 each. Based on this information alone, the sales price variance is
- a. \$1,250 favorable
 - b. \$1,250 unfavorable
 - c. \$1,500 favorable
 - D.** \$1,500 unfavorable
 - e. There is not enough information to determine.
33. During 2005, Big Boy Incorporated paid \$5,000 for raw materials and \$3,000 for production workers' wages. Rent on the facility was \$6,000. Big Boy paid \$3,000 for general, selling, and admin expenses. The company produced 14,000 gadgets and sold 10,000 for \$1.75 each. What is the amount of net income for 2005?
- a. \$7,500
 - B.** \$4,500
 - c. \$3,500
 - d. (\$500)
 - e. None of the above

34. Johansson Company developed the following static (i.e., master) budget at the beginning of the company's accounting period:

Revenue (8,000 units)	\$16,000
Variable Costs	<u>4,000</u>
Contribution Margin	\$12,000
Fixed Costs	<u>4,000</u>
Net income	<u>\$ 8,000</u>

If actual production totals 7,800 units, the flexible budget would show variable costs of

- a. \$15,600
- b. \$15,000
- c. \$4,000
- D.** \$3,900
- e. None of the above

35. Rustic Furniture Company makes two types of chairs. One of the chairs is a rocking chair. The other is a straight-back chair. Both chairs are made by hand. Rustic Furniture Company uses a company-wide overhead rate that is based on direct labor hours to assign overhead costs to the two products. The overhead allocation based on direct labor hours is reasonably accurate. If Rustic automates the production of rocking chairs only and continues to use direct labor hours as a company-wide allocation basis,

- a. rocking chairs will be under-costed.
- b. straight back chairs will be over-costed.
- c. rocking chairs will be over-costed
- D.** A and B are correct.
- e. B and C are correct.

36. Silly Sally plans on selling 12,000 spinners during 2006. The variable cost per unit is \$4. Fixed costs will total \$20,000 for the year. Sally would like to report net income of \$28,000 for the year. How much should Sally sell each spinner for in order to earn her desired profit?

- a. \$2.33
- b. \$5.67
- c. \$6.33
- D.** \$8.00
- e. There is not enough information to determine.

37. Which of the following is the approximate internal rate of return for an investment that costs \$24,182 and provides \$3,000 each year for 15 years?
- a. 7%
 - b. 8%
 - C.** 9%
 - d. 10%
 - e. 12%
38. Leland Company has cash of \$15,000, accounts receivable of \$22,000, inventory of \$12,000, and, equipment of \$80,000. Assuming current liabilities of \$32,000, this company's working capital is
- a. \$ 5,000.
 - B.** \$17,000.
 - c. \$22,000.
 - d. \$72,000.
 - e. None of the above.
39. Which of the following is NOT manufacturing overhead?
- a. Indirect labor
 - b. Utilities for factory
 - C.** Raw materials used in production process
 - d. Rent for manufacturing facility
 - e. None of the above
40. Peach Company made a \$100,000 investment in new machinery. The company desires a return of 12% on all investments. The new investment will generate sales of \$400,000. Assuming the company's margin is 4%, what is the amount of residual income from the new investment?
- A.** \$ 4,000.
 - b. \$12,000.
 - c. \$16,000.
 - d. \$0.
 - e. There is not enough information.