

Acct 2301 (Spring 2006) - Exam 1

Student: _____

1. Which of the following costs is *not* considered to be an inventory cost?
 - A. Raw material
 - B. Depreciation of delivery vehicles
 - C. Production wages
 - D. Factory utilities
 - E. All of the above are inventory costs.

2. During its first year of operations, the Jones company paid \$3,000 for direct materials and \$7,500 for production workers' wages. Lease payments and utilities on the production facilities amounted to \$5,500 while general, selling, and administrative expenses totaled \$2,000. The company produced 5,000 units and sold 4,000 units at a price of \$8.50 a unit. What is the amount of gross margin for the first year?
 - A. \$18,000
 - B. \$21,200
 - C. \$16,000
 - D. \$19,600
 - E. None of the above.

3. O'Neal Timber Lumber Company mistakenly classified a product cost that totaled \$30,000 as an expense. The company produced 4,000 units of product and sold 2,000 of them during the year. Management is paid a bonus equal to 3% of net income. In the year in which the mistake was made
 - A. product costs are overstated.
 - B. management bonuses are overstated.
 - C. the company's income statement portrayed a more favorable position than actually existed.
 - D. the company's net income is understated.
 - E. Nothing is over or understated.

4. The following information is provided for Greene Company for the 2005 accounting year. This is the company's first year of operations.

| | | |
|-----|--|-----------|
| (1) | Raw material used | \$ 5,000 |
| (2) | Production wages | \$ 10,000 |
| (3) | Sales salaries and other selling costs | \$ 20,000 |
| (4) | Overhead Costs | \$ 5,000 |
| (6) | Administrative Salaries and costs | \$ 30,000 |
| (7) | Sales Revenues | \$100,000 |
| (8) | Products Produced | 4,000 |
| (9) | Products Sold | 2,000 |

Based on the above information, what is the company's cost of goods sold for 2005? (Note: The Overhead Costs are manufacturing overhead costs.)

- A. \$20,000
 - B. \$40,000
 - C. \$10,000
 - D. \$35,000
 - E. There is not enough information to determine.
5. Goey Goodies Company makes candy. During 2005, Goey Goodies paid \$5,000 for raw materials, \$7,000 for labor, \$4,000 for manufacturing overhead costs, and \$6,000 for general, selling, and administrative expenses. Goey Goodies started and completed 20,000 unit of candy of which 16,000 units were sold for \$2 per unit. What is the amount of net income that Goey Goodies will report on their 2005 income statement?
- A. \$16,000
 - B. \$13,200
 - C. \$14,000
 - D. \$19,200
 - E. None of the above
6. Browning Company purchased \$50,000 of manufacturing equipment in 2000. The equipment has a 10-year life. Browning uses straight-line depreciation. During 2004 the company made 10,000 units of product and sold 8,000 of these units. The amount of depreciation expense that would be included in the cost of goods sold for 2004 would be:
- A. \$4,000
 - B. \$5,000
 - C. \$6,000
 - D. zero
 - E. Depreciation is never included in cost of goods sold.

7. Coffee Cafe operates a chain of coffee shops. The company pays rent of \$24,000 per year for each shop. Supplies (napkins, bags and condiments) are purchased as needed. The managers of each shop are paid a salary of \$3,000 per month and all other employees are paid on an hourly basis. Relative to the number of customers, the total wage expense is which kind of cost?
- Fixed cost
 - Variable cost
 - Mixed cost
 - Relevant cost
 - None of the above.
8. For 2005, Chips Company had revenue of \$100,000, fixed costs of \$60,000, and variable costs of \$20,000. Based on this information, what was Chips' operating leverage for 2005?
- 2
 - 4
 - 6
 - 0.8
 - None of the above
9. The following information is provided:
- | | |
|------------------------------------|-----------|
| Sales revenue | \$200,000 |
| Variable manufacturing costs | 60,000 |
| Fixed manufacturing costs | 26,000 |
| Variable selling and general costs | 24,000 |
| Fixed selling and general costs | 20,000 |
- What is this company's contribution margin?
- \$140,000
 - \$116,000
 - \$114,000
 - \$ 90,000
 - None of the above.
10. The magnitude of operating leverage for DeBell's Ski Express is 3.2 when sales are \$50,000. If sales increase by 20%, profits would be expected to increase by what percent?
- 20%
 - 32%
 - 60%
 - 64%
 - None of the above.

11. Sliter Company sells CD players for \$50. Variable costs are 40% of sales and total fixed costs are \$40,000. What is the firm's operating leverage if 2,000 units are sold?
- A. 3.0
 - B. 2.0
 - C. 1.5
 - D. 0
 - E. None of the above
12. Speed-E-Lube and Rapid Oil Change are competing oil change businesses. Both companies have 5,000 customers. The price of an oil change at both companies is \$20. Speed-E-Lube pays its employees on a salary basis. Speed-E-Lube's salary expense is \$40,000. Rapid Oil Change pays its employees \$8 per customer served. Suppose Speed-E-Lube is able to lure 1,000 customers from Rapid Oil Change by lowering its price to \$18 per vehicle. Thus, Speed-E-Lube will have 6,000 customers and Rapid Oil Change will have only 4,000 customers. Select the correct statement from the following.
- A. Speed-E-Lube's profit will remain the same while Rapid Oil Change's profit will fall.
 - B. Rapid Oil Change's profit will fall but it will still earn a higher profit than Speed-E-Lube.
 - C. Profits will decline for both Speed-E-Lube and Rapid Oil Change.
 - D. All of the statements are false.
 - E. All of the statements are true.
13. Production in 2005 for Sally's Speedboats was at its highest point in the month of April when 45 units were produced at a total cost of \$1,000,000. The low point was in October when only 25 units were produced at a cost of \$600,000. Using the high/low method, the amount of projected fixed cost is
- A. \$20,000
 - B. \$900,000
 - C. \$500,000
 - D. \$100,000
 - E. None of the above
14. Refreshing Drink Company bottles a soft drink that is sold for a dollar. The company pays \$500,000 in production costs, half of which are fixed costs. General, selling, and administrative costs amount to \$200,000 of which \$50,000 are fixed costs. Assuming production and sales of 500,000 units, what is the amount of contribution margin per unit?
- A. \$0.125
 - B. \$0.200
 - C. \$0.500
 - D. \$0.700
 - E. None of the above

15. Woodlands Inc. produces a product that has a variable cost of \$4.00 per unit. The company's fixed costs are \$20,000. The product sells for \$10.00 a unit and the company desires to earn a \$40,000 profit. How many units must be sold in order to earn the desired profit?
- A. 3,333 units
 - B. 6,000 units
 - C. 6,667 units
 - D. 10,000 units
 - E. There is not enough information to determine.
16. Hawkeye Company has fixed costs of \$40,000. Its product sells for \$100. The company desires to make a profit of \$20,000. The company accountant has determined that 2,400 units is the sales volume needed to achieve its target. What is the company's variable cost per unit?
- A. \$40
 - B. \$60
 - C. \$75
 - D. \$100
 - E. None of the above
17. Pomeranz Company produces a product that has a selling price of \$12.00 and a variable cost of \$6.00 per unit. The company's fixed costs are \$120,000. What is the breakeven point in sales dollars?
- A. \$ 30,000
 - B. \$120,000
 - C. \$200,000
 - D. \$240,000
 - E. None of the above
18. A market research specialist told Kaleena Company that it could expect to sell 100,000 units of its new product at a price of \$5. Assuming the company desires profit equal to 25% of sales, what should be the target cost?
- A. \$125,000
 - B. \$500,000
 - C. \$625,000
 - D. \$375,000
 - E. None of the above

19. Graham Company breaks even at \$500,000 in total sales. Assuming the company sells its product for \$50 per unit, what is its margin of safety in units if sales total \$750,000?
- A. 5,000
 - B. 10,000
 - C. 15,000
 - D. 20,000
 - E. There is not enough information given.
20. Greene Company has a contribution margin ratio of 35%. The company is considering a proposal that will increase sales by \$175,000. What increase in profit can be expected assuming total fixed costs increase by \$30,000?
- A. \$30,000
 - B. \$31,250
 - C. \$61,250
 - D. \$113,750
 - E. None of the above

21. Andy is trying to decide which one of two job offers he will accept. Several items are presented below:

| | <u>Job Offer A</u> | <u>Job Offer B</u> |
|---------------------------|--------------------|--------------------|
| (1) Base offer | \$50,000 | \$50,000 |
| (2) Overtime compensation | Comp time | Hourly rate |
| (3) Moving allowance | \$ 3,000 | \$ 3,000 |
| (4) Signing bonus | \$ 2,000 | \$ 0 |
| (5) Job search costs | \$ 300 | \$ 500 |

Select the items that are relevant to Andy's decision. Select your answer based on dollar amounts.

- A. (1), (2), (3), (4), (5)
- B. (1), (2), (3), (4)
- C. (1), (3), (5)
- D. (2), (4)
- E. None of the items are relevant to Andy's decision.

22. Robert is involved in deciding whether to remain in the home he has lived in for the past ten years which is located very near his work or to move into a newer home that is located in the suburbs further from his job. The old house was purchased for \$140,000 and has a market value of \$200,000. The new home can be purchased for \$275,000. Choose the choice that contains information that is not relevant to Robert's decision?
- A. driving distance to work
 - B. cost of the new house
 - C. market value of the old house
 - D. cost of the old house
 - E. All of the above are relevant to the decision.
23. Information Incorporated has the capacity to produce 20,000 printers per year. Information Inc. currently produces and sells 14,000 units per year. The printers normally sell for \$200 each. Modem Products has offered to buy 4,000 printers from Information Inc. for \$120 each. Unit-level costs associated with manufacturing the printers are \$30 each for direct labor and \$80 each for direct materials. Product-level and facility-sustaining costs are \$100,000 and \$120,000, respectively. How much would profit increase (decrease) if Information Inc. accepted this special order?
- A. (\$40,000)
 - B. \$40,000
 - C. \$480,000
 - D. (\$320,000)
 - E. None of the above
24. Justin Company is considering replacing equipment which was originally purchased for \$50,000. New equipment costs \$80,000 and the old equipment can be sold for \$8,000. What is the sunk cost in this situation?
- A. \$30,000
 - B. \$42,000
 - C. \$50,000
 - D. \$72,000
 - E. There is no sunk cost.

25. Kevin paid \$80 for his Cotton Bowl ticket. Kevin's buddy offered to buy his ticket for \$90, but Kevin did not sell his ticket. Outside the gate, Kevin was offered \$100 for his ticket, but again did not sell his ticket. What was Kevin's opportunity cost?

- A. \$80
- B. \$90
- C. \$100
- D. \$190
- E. Kevin did not have any opportunity cost.

26. Great Products Company currently outsources an electrical switch that is a component in one of its products. The switches cost \$20 each. The company is considering making the switches internally at the following projected annual production costs:

| | |
|---|----------|
| Unit-level material cost | \$ 3 |
| Unit-level labor cost | \$ 2 |
| Unit-level overhead | \$ 1 |
| Batch-level set-up cost (5,000 units per batch) | \$25,000 |
| Product-level supervisory salaries | \$37,500 |
| Allocated facility-level costs | \$20,000 |

The company expects an annual need for 5,000 switches. If the company makes the product, it will have to utilize factory space currently being leased for \$1,500 a month. Assume the company will need a supervisor to oversee production of the switches. Ignore qualitative considerations. If the company decides to make the parts, the total relevant costs will be

- A. \$110,500
- B. \$92,500
- C. \$55,000
- D. \$30,000
- E. None of the costs are relevant.

27. What is your intended major? If you are currently undecided (or if your major is not listed), please leave the question blank. (Don't worry, you can't miss this problem.)

- A. Accounting
- B. Finance
- C. ISQS (information systems)
- D. Marketing
- E. Management

Acct 2301 (Spring 2006) - Exam 1 Key

1. Which of the following costs is *not* considered to be an inventory cost?
 - a. Raw material
 - B.** Depreciation of delivery vehicles
 - c. Production wages
 - d. Factory utilities
 - e. All of the above are inventory costs.

2. During its first year of operations, the Jones company paid \$3,000 for direct materials and \$7,500 for production workers' wages. Lease payments and utilities on the production facilities amounted to \$5,500 while general, selling, and administrative expenses totaled \$2,000. The company produced 5,000 units and sold 4,000 units at a price of \$8.50 a unit. What is the amount of gross margin for the first year?
 - a. \$18,000
 - B.** \$21,200
 - c. \$16,000
 - d. \$19,600
 - e. None of the above.

3. O'Neal Timber Lumber Company mistakenly classified a product cost that totaled \$30,000 as an expense. The company produced 4,000 units of product and sold 2,000 of them during the year. Management is paid a bonus equal to 3% of net income. In the year in which the mistake was made
 - a. product costs are overstated.
 - b. management bonuses are overstated.
 - c. the company's income statement portrayed a more favorable position than actually existed.
 - D.** the company's net income is understated.
 - e. Nothing is over or understated.

4. The following information is provided for Greene Company for the 2005 accounting year. This is the company's first year of operations.

| | |
|--|-----------|
| (1) Raw material used | \$ 5,000 |
| (2) Production wages | \$ 10,000 |
| (3) Sales salaries and other selling costs | \$ 20,000 |
| (4) Overhead Costs | \$ 5,000 |
| (6) Administrative Salaries and costs | \$ 30,000 |
| (7) Sales Revenues | \$100,000 |
| (8) Products Produced | 4,000 |
| (9) Products Sold | 2,000 |

Based on the above information, what is the company's cost of goods sold for 2005? (Note: The Overhead Costs are manufacturing overhead costs.)

- a. \$20,000
- b. \$40,000
- C.** \$10,000
- d. \$35,000
- e. There is not enough information to determine.

5. Gooley Goodies Company makes candy. During 2005, Gooley Goodies paid \$5,000 for raw materials, \$7,000 for labor, \$4,000 for manufacturing overhead costs, and \$6,000 for general, selling, and administrative expenses. Gooley Goodies started and completed 20,000 unit of candy of which 16,000 units were sold for \$2 per unit. What is the amount of net income that Gooley Goodies will report on their 2005 income statement?

- a. \$16,000
- B.** \$13,200
- c. \$14,000
- d. \$19,200
- e. None of the above

6. Browning Company purchased \$50,000 of manufacturing equipment in 2000. The equipment has a 10-year life. Browning uses straight-line depreciation. During 2004 the company made 10,000 units of product and sold 8,000 of these units. The amount of depreciation expense that would be included in the cost of goods sold for 2004 would be:

- A.** \$4,000
- b. \$5,000
- c. \$6,000
- d. zero
- e. Depreciation is never included in cost of goods sold.

7. Coffee Cafe operates a chain of coffee shops. The company pays rent of \$24,000 per year for each shop. Supplies (napkins, bags and condiments) are purchased as needed. The managers of each shop are paid a salary of \$3,000 per month and all other employees are paid on an hourly basis. Relative to the number of customers, the total wage expense is which kind of cost?

- a. Fixed cost
- b. Variable cost
- C. Mixed cost**
- d. Relevant cost
- e. None of the above.

8. For 2005, Chips Company had revenue of \$100,000, fixed costs of \$60,000, and variable costs of \$20,000. Based on this information, what was Chips' operating leverage for 2005?

- a. 2
- B. 4**
- c. 6
- d. 0.8
- e. None of the above

9. The following information is provided:

| | |
|------------------------------------|-----------|
| Sales revenue | \$200,000 |
| Variable manufacturing costs | 60,000 |
| Fixed manufacturing costs | 26,000 |
| Variable selling and general costs | 24,000 |
| Fixed selling and general costs | 20,000 |

What is this company's contribution margin?

- a. \$140,000
- B. \$116,000**
- c. \$114,000
- d. \$ 90,000
- e. None of the above.

10. The magnitude of operating leverage for DeBell's Ski Express is 3.2 when sales are \$50,000. If sales increase by 20%, profits would be expected to increase by what percent?
- a. 20%
 - b. 32%
 - c. 60%
 - D.** 64%
 - e. None of the above.
11. Sliter Company sells CD players for \$50. Variable costs are 40% of sales and total fixed costs are \$40,000. What is the firm's operating leverage if 2,000 units are sold?
- A.** 3.0
 - b. 2.0
 - c. 1.5
 - d. 0
 - e. None of the above
12. Speed-E-Lube and Rapid Oil Change are competing oil change businesses. Both companies have 5,000 customers. The price of an oil change at both companies is \$20. Speed-E-Lube pays its employees on a salary basis. Speed-E-Lube's salary expense is \$40,000. Rapid Oil Change pays its employees \$8 per customer served. Suppose Speed-E-Lube is able to lure 1,000 customers from Rapid Oil Change by lowering its price to \$18 per vehicle. Thus, Speed-E-Lube will have 6,000 customers and Rapid Oil Change will have only 4,000 customers. Select the correct statement from the following.
- a. Speed-E-Lube's profit will remain the same while Rapid Oil Change's profit will fall.
 - b. Rapid Oil Change's profit will fall but it will still earn a higher profit than Speed-E-Lube.
 - c. Profits will decline for both Speed-E-Lube and Rapid Oil Change.
 - D.** All of the statements are false.
 - e. All of the statements are true.
13. Production in 2005 for Sally's Speedboats was at its highest point in the month of April when 45 units were produced at a total cost of \$1,000,000. The low point was in October when only 25 units were produced at a cost of \$600,000. Using the high/low method, the amount of projected fixed cost is
- a. \$20,000
 - b. \$900,000
 - c. \$500,000
 - D.** \$100,000
 - e. None of the above

14. Refreshing Drink Company bottles a soft drink that is sold for a dollar. The company pays \$500,000 in production costs, half of which are fixed costs. General, selling, and administrative costs amount to \$200,000 of which \$50,000 are fixed costs. Assuming production and sales of 500,000 units, what is the amount of contribution margin per unit?
- a. \$0.125
 - B.** \$0.200
 - c. \$0.500
 - d. \$0.700
 - e. None of the above
15. Woodlands Inc. produces a product that has a variable cost of \$4.00 per unit. The company's fixed costs are \$20,000. The product sells for \$10.00 a unit and the company desires to earn a \$40,000 profit. How many units must be sold in order to earn the desired profit?
- a. 3,333 units
 - b. 6,000 units
 - c. 6,667 units
 - D.** 10,000 units
 - e. There is not enough information to determine.
16. Hawkeye Company has fixed costs of \$40,000. Its product sells for \$100. The company desires to make a profit of \$20,000. The company accountant has determined that 2,400 units is the sales volume needed to achieve its target. What is the company's variable cost per unit?
- a. \$40
 - b. \$60
 - C.** \$75
 - d. \$100
 - e. None of the above
17. Pomeranz Company produces a product that has a selling price of \$12.00 and a variable cost of \$6.00 per unit. The company's fixed costs are \$120,000. What is the breakeven point in sales dollars?
- a. \$ 30,000
 - b. \$120,000
 - c. \$200,000
 - D.** \$240,000
 - e. None of the above

18. A market research specialist told Kaleena Company that it could expect to sell 100,000 units of its new product at a price of \$5. Assuming the company desires profit equal to 25% of sales, what should be the target cost?
- a. \$125,000
 - b. \$500,000
 - c. \$625,000
 - D.** \$375,000
 - e. None of the above
19. Graham Company breaks even at \$500,000 in total sales. Assuming the company sells its product for \$50 per unit, what is its margin of safety in units if sales total \$750,000?
- A.** 5,000
 - b. 10,000
 - c. 15,000
 - d. 20,000
 - e. There is not enough information given.
20. Greene Company has a contribution margin ratio of 35%. The company is considering a proposal that will increase sales by \$175,000. What increase in profit can be expected assuming total fixed costs increase by \$30,000?
- a. \$30,000
 - B.** \$31,250
 - c. \$61,250
 - d. \$113,750
 - e. None of the above

21. Andy is trying to decide which one of two job offers he will accept. Several items are presented below:

| | <u>Job Offer A</u> | <u>Job Offer B</u> |
|---------------------------|--------------------|--------------------|
| (1) Base offer | \$50,000 | \$50,000 |
| (2) Overtime compensation | Comp time | Hourly rate |
| (3) Moving allowance | \$ 3,000 | \$ 3,000 |
| (4) Signing bonus | \$ 2,000 | \$ 0 |
| (5) Job search costs | \$ 300 | \$ 500 |

Select the items that are relevant to Andy's decision. Select your answer based on dollar amounts.

a. (1), (2), (3), (4), (5)

b. (1), (2), (3), (4)

c. (1), (3), (5)

D. (2), (4)

e. None of the items are relevant to Andy's decision.

22. Robert is involved in deciding whether to remain in the home he has lived in for the past ten years which is located very near his work or to move into a newer home that is located in the suburbs further from his job. The old house was purchased for \$140,000 and has a market value of \$200,000. The new home can be purchased for \$275,000. Choose the choice that contains information that is not relevant to Robert's decision?

a. driving distance to work

b. cost of the new house

c. market value of the old house

D. cost of the old house

e. All of the above are relevant to the decision.

23. Information Incorporated has the capacity to produce 20,000 printers per year. Information Inc. currently produces and sells 14,000 units per year. The printers normally sell for \$200 each. Modem Products has offered to buy 4,000 printers from Information Inc. for \$120 each. Unit-level costs associated with manufacturing the printers are \$30 each for direct labor and \$80 each for direct materials. Product-level and facility-sustaining costs are \$100,000 and \$120,000, respectively. How much would profit increase (decrease) if Information Inc. accepted this special order?

a. (\$40,000)

B. \$40,000

c. \$480,000

d. (\$320,000)

e. None of the above

24. Justin Company is considering replacing equipment which was originally purchased for \$50,000. New equipment costs \$80,000 and the old equipment can be sold for \$8,000. What is the sunk cost in this situation?
- a. \$30,000
 - b. \$42,000
 - C. \$50,000**
 - d. \$72,000
 - e. There is no sunk cost.

25. Kevin paid \$80 for his Cotton Bowl ticket. Kevin's buddy offered to buy his ticket for \$90, but Kevin did not sell his ticket. Outside the gate, Kevin was offered \$100 for his ticket, but again did not sell his ticket. What was Kevin's opportunity cost?
- a. \$80
 - b. \$90
 - C. \$100**
 - d. \$190
 - e. Kevin did not have any opportunity cost.

26. Great Products Company currently outsources an electrical switch that is a component in one of its products. The switches cost \$20 each. The company is considering making the switches internally at the following projected annual production costs:

| | |
|---|----------|
| Unit-level material cost | \$ 3 |
| Unit-level labor cost | \$ 2 |
| Unit-level overhead | \$ 1 |
| Batch-level set-up cost (5,000 units per batch) | \$25,000 |
| Product-level supervisory salaries | \$37,500 |
| Allocated facility-level costs | \$20,000 |

The company expects an annual need for 5,000 switches. If the company makes the product, it will have to utilize factory space currently being leased for \$1,500 a month. Assume the company will need a supervisor to oversee production of the switches. Ignore qualitative considerations. If the company decides to make the parts, the total relevant costs will be

- A. \$110,500**
- b. \$92,500
- c. \$55,000
- d. \$30,000
- e. None of the costs are relevant.

27. What is your intended major? If you are currently undecided (or if your major is not listed), please leave the question blank. (Don't worry, you can't miss this problem.)

- A.** Accounting
- b. Finance
- c. ISQS (information systems)
- d. Marketing
- e. Management