

Unit 2 Practice Test

1. An opportunity cost?

- A. should be initially recorded as an asset.
- B. is classified as manufacturing overhead.
- C. is the cost of a new product proposal
- D. is the potential benefit that may be obtained by following an alternative course of action.

2. Concord Corporation can produce 100 units of a necessary component part with the following costs:

Direct Materials	\$18,000
Direct Labor	12,000
Variable Overhead	19,000
Fixed Overhead	8,000

If Concord Corporation purchases the component externally, \$2,000 of the fixed costs can be avoided. What is the maximum amount Concord is willing to pay to purchase the 100 units?

- A. \$43,000
- B. \$51,000
- C. \$49,000
- D. \$55,000

3. Sunland Company is considering the replacement of a piece of equipment with a newer model. The following data has been collected:

	<u>Old Equipment</u>	<u>New Equipment</u>
Purchase price	\$185,000	\$304,000
Accumulated depreciation	74,000	- 0 -
Annual operating costs	244,000	193,000

If the old equipment is replaced now, it can be sold for \$49,900. Both the old equipment's remaining useful life and the new equipment's useful life is 5 years.

Which of the following amounts is irrelevant to the replacement decision?

- A. \$49,000
- B. \$304,000
- C. \$111,000
- D. \$254,100

4. A company requires \$1,500,000 in sales to meet its net income target. Its contribution margin is 30%, and fixed costs are \$300,000. What is the target net income?

- A. \$45,000
- B. \$390,000
- C. \$640,000
- D. \$150,000

5. Swifty Corporation has two divisions; Sporting Goods and Sports Gear. The sales mix is 65% for Sporting Goods and 35% for Sports Gear. Swifty incurs \$6,937,500 in fixed costs. The contribution margin ratio for Sporting Goods is 30%, while for Sports Gear it is 50%. The break-even point in dollars is

- A. 17,343,750
- B. 18,750,000
- C. 2,566,875
- D. 16,133,721

6. Vaughn Music produces 60000 CDs on which to record music. The CDs have the following costs:

Direct Materials	\$12500
Direct Labor	14500
Variable Overhead	2500
Fixed Overhead	7000

Vaughn could avoid \$4000 in fixed overhead costs if it acquires the CDs externally. If cost minimization is the major consideration and the company would prefer to buy the 60000 units externally, what is the maximum amount that Vaughn should pay to purchase the units?

- A. 29,500
- B. 36,500
- C. 33,500
- D. 32,500

7. Jackson Lumber's has two locations. The suburban location has sales of \$1,140,000 and variable expenses of \$634,000. The fixed costs equal \$620,000. If this location is eliminated, the fixed expenses will be allocated to the company's city location. What is the incremental effect on net income if the suburban location is dropped?

- A. 506,000 decrease
- B. 114,000 increase
- C. 520,000 increase
- D. 620,000 decrease

8. Bonita Industries is unsure of whether to sell its product assembled or unassembled. The unit cost of the unassembled product is \$24 and Bonita would sell it for \$60. The cost to assemble the product is estimated at \$22 per unit and the company believes the market would support a price of \$79 on the assembled unit. What decision should Bonita make?

- A. Sell before assembly, the company will be better off by \$3 per unit
- B. Sell before assembly, the company will be better off by \$19 per unit
- C. Process further, the company will be better off by \$21 per unit
- D. Process further, the company will be better off by \$14 per unit

9. Bramble Corp. reported sales of \$1800000 last year (90000 units at \$20 each), when the break-even point was 72000 units. Bramble's margin of safety ratio is

- A. 80%
- B. 120%
- C. 20%
- D. 25%

10. In a make-or-buy decision, which costs can be considered relevant

- A. Incremental variable costs, incremental fixed costs, and opportunity costs
- B. Incremental variable costs, unavoidable fixed costs, and opportunity costs
- C. Incremental variable costs, incremental fixed costs, and sunk costs
- D. Unavoidable variable costs, incremental fixed costs, and sunk costs

11. In using the high-low method, the fixed cost

- A. is determined by adding the total variable cost to the total cost at the low activity level.
- B. may be determined by subtracting the total variable cost from either the total cost at the low or high activity level.
- C. is determined before the total variable cost.
- D. is determined by subtracting the total cost at the high level of activity from the total cost at the low activity level.

12. At the break-even point,

- A. sales equal total fixed costs
- B. sales equal total variable costs
- C. contribution margin equals total variable costs
- D. contribution margin equals total fixed costs

13. Bramble Corp. produces flash drives for computers, which it sells for \$60 each. The variable cost to make each flash drive is \$36. During April, 700 drives were sold. Fixed costs for April were \$1400. How much is the monthly break-even level of sales in dollars for Bramble?

- A. 2,100
- B. 16,800
- C. 3,500
- D. 17,700

14. Sunland Company had a total maintenance cost in January of \$4,500 while using 800 machine hours. In February, they had a total cost of \$2,900 while using only 300 machine hours. Using the high-low method, what is the fixed cost?

- A. 1,940
- B. 1,600
- C. 2,260
- D. 1,300

15. Marigold Corp. has sales of \$4,000,000, variable costs of \$3,000,000, and fixed costs of \$600,000. Marigold's degree of operating leverage is

- A. 1.00
- B. 0.88
- C. 2.50
- D. 1.67

16. An example of a mixed cost is

- A. Direct materials
- B. Property taxes
- C. Supervisor salaries
- D. Utility costs

17. Coronado Industries cost of goods sold is \$260,000 variable and \$160,000 fixed. The company's selling and administrative expenses are \$140,000 variable and \$200,000 fixed. If the company's sales are \$1,020,000, what is its contribution margin?

- A. 620,000
- B. 660,000
- C. 600,000
- D. 260,000

18. Coronado Industries cost of goods sold is \$260,000 variable and \$160,000 fixed. The company's selling and administrative expenses are \$140,000 variable and \$200,000 fixed. If the company's sales are \$1,020,000, what is its break-even point in sales dollars?

- A. 329,055
- B. 592,300
- C. 553,846
- D. 340,136

19. In 2016, Sunland Company sold 3000 units at \$800 each. Variable expenses were \$500 per unit, and fixed expenses were \$270,000. The same selling price, variable expenses, and fixed expenses are expected for 2017. What is Sunland's break-even point in units for 2017?

- A. 900
- B. 338
- C. 450
- D. 540

20. In 2016, Sunland Company sold 3000 units at \$800 each. Variable expenses were \$500 per unit, and fixed expenses were \$270,000. The same selling price, variable expenses, and fixed expenses are expected for 2017, but they would like to earn a profit of \$990,000. How many units must they sell in 2017?

- A. 3,300
- B. 4,200
- C. 1,980
- D. 2,520

SOLUTIONS

1. D
2. B
3. C
4. D
5. B
6. C
7. A
8. A
9. C
10. A
11. B
12. D
13. C
14. A
15. C
16. D
17. A
18. B
19. A
20. B