Choose the right answer A, B, C orD

1) Sunk costs ________.
A) are future costs for decision making
B) are avoidable costs
C) are irrelevant for decision making
D) are foregone contribution by not using a limited resource in its next-best alternative use
Answer: C

2) A relevant revenue is revenue that is a(n) ________.
A) past revenue and differs among alternative courses of action
B) future revenue and differs among alternative courses of action
C) in-hand revenue
D) earned revenue
Answer: B

3) A relevant cost is a cost that is a ________.
A) future cost
B) past cost
C) sunk cost
D) non-cash expense
Answer: A

4) When deciding to accept a one-time-only special order from a wholesaler, management should ________.
A) consider the sunk costs and opportunity costs
B) not consider the special order's impact on future prices of their products
C) determine whether excess capacity is available
D) verify past design costs for the product
Answer: C

5) When there is an excess capacity, it makes sense to accept a one-time-only special order for less than the current selling price if ________.
A) incremental revenues exceed incremental costs
B) additional fixed costs is incurred to accommodate the order
C) the company placing the order is in the same market segment as your current customers
D) incremental revenue equals incremental operating income
Answer: A

6) Dantley's Furniture manufactures rustic furniture. The cost accounting system estimates manufacturing costs to be $190 per table, consisting of 80% variable costs and 20% fixed costs. The company has surplus capacity available. It is Back Forrest's policy to add a 45% markup to full costs. Dantley's Furniture is invited to bid on a one-time-only special order to supply 180 rustic tables. What is the lowest price Dantley's Furniture should bid on this special order?
A) $22,230

B) $27,360
C) $34,200
D) $42,750
Answer: B
Explanation: $190 × 80% × 180 tables = $27,360

7) Zephram Corporation has a plant capacity of 200,000 units per month. Unit costs at capacity are:

Direct materials	$6.00
Direct labor	5.00
Variable overhead	4.00
Fixed overhead	2.00
Marketing—fixed	6.00
Marketing/distribution—variable	4.60

Current monthly sales are 190,000 units at $30 each. Q, Inc., has contacted Zephram Corporation about purchasing 2,500 units at $24 each. Current sales would not be affected by the one-time-only special order. What is Zephram's change in operating profits if the one-time-only special order is accepted?
A) $11,000 increase
B) $31,500 increase
C) $22,500 increase
D) $49,000 increase
Answer: A
Explanation: ($6.00 + $5.00 + $4.00 + $4.60) = $19.60
($24.00 - $19.60) × 2,500 = $11,000 increase

8) Crandle Manufacturers Inc. is approached by a potential customer to fulfill a one-time-only special order for a product similar to one offered to domestic customers. The company has excess capacity. The following per unit data apply for sales to regular customers:

Variable costs:	
Direct materials	$130
Direct labor	110
Manufacturing support	125
Marketing costs	65
Fixed costs:	
Manufacturing support	175
Marketing costs	85
Total costs	690
Markup (50%)	345
Targeted selling price	$1,035

What is the full cost of the product per unit?
A) $430
B) $1,035
C) $690
D) $345
Answer: C
Explanation: Full cost = $130 + $110 + $125 + $65 + $175 + $85 = $690

9) Crandle Manufacturers Inc. is approached by a potential new customer to fulfill a one-time-only special order for a product similar to one offered to domestic customers. The company has excess capacity. The following per unit data apply for sales to regular customers:

Variable costs:	
Direct materials	$170
Direct labor	90
Manufacturing support	135
Marketing costs	85
Fixed costs:	
Manufacturing support	145
Marketing costs	75
Total costs	700
Markup (40%)	280
Targeted selling price	$980

What is the contribution margin per unit?
A) $220
B) $280
C) $500
D) $700
Answer: C
Explanation: Contribution margin per unit = $980 - ($170 + $90 + $135 + $85) = $500

10) McMurphy Corporation produces a part that is used in the manufacture of one of its products. The costs associated with the production of 12,000 units of this part are as follows:

Direct materials	$86,000
Direct labor	126,000
Variable factory overhead	58,000
Fixed factory overhead	138,000
Total costs	$408,000

Of the fixed factory overhead costs, $55,000 is avoidable. Conners Company has offered to sell 12,000 units of the same part to McMurphy Corporation for $41 per unit.

Assuming there is no other use for the facilities, Schmidt should ________.
A) make the part, as this would save $16 per unit
B) buy the part, as this would save $16 per unit
C) buy the part, as this would save the company $192,000
D) make the part, as this would save $14 per unit
Answer: D
Explanation: Avoidable costs total = $86,000 + $126,000 + $58,000 + $55,000 = $325,000.
$41 - ($325,000 / 12,000) = $14

11) Striker 44 Corporation produces a part that is used in the manufacture of one of its products. The costs associated with the production of 12,000 units of this part are as follows:

Direct materials	$86,000
Direct labor	130,000
Variable factory overhead	57,000
Fixed factory overhead	135,000
Total costs	$408,000

Of the fixed factory overhead costs, $58,000 is avoidable.

Assuming no other use of their facilities, the highest price that McMurphy should be willing to pay for 12,000 units of the part is ________.
A) $408,000
B) $273,000
C) $331,000
D) $351,000
Answer: C
Explanation: $86,000 + $130,000 + $57,000 + $58,000 = $331,000

12) Relevant data in a make-or-buy decision of a part include which of the following?
A) The portion of fixed costs that would be incurred whether the product is made or purchased
B) Some portion of fixed costs that would be saved if the product is outsourced
C) Annual plant insurance costs
D) Management consultant fees to restructure the organization framework of the company and improve overall strategic planning
Answer: B

13) In a make-or-buy decision, which of the following would not be relevant?
A) the quality of the product
B) the portion of fixed costs that could be eliminated by outsourcing
C) a lease that could be discontinued upon accepting the "buy proposal"
D) property taxes on the plant that will still be necessary even if the product is outsourced
Answer: D

14) Which of the following is a relevant cost to be included in a make-or-buy decision?
A) fixed salaries that will not be incurred if the part is outsourced
B) pension costs to the current employees
C) increase in the cost of repairing of all equipment of the firm
D) material-handling costs that cannot be eliminated even if the product is outsourced
Answer: A

15) Which of the following minimizes the risks of outsourcing (buy from outside)?
A) the use of short-term contracts that specify price
B) shifting the firm's responsibility for on-time delivery to the supplier
C) building close partnerships with the supplier
D) increasing the contract price

Answer: C

16) The cost to produce Part A was $20 per unit in 2013 and in 2014 it has increased to $22 per unit. In 2014, Supplier ABC has offered to supply Part A for $18 per unit. For the make-or-buy decision ________.
A) incremental revenues are $4 per unit
B) incremental costs are $2 per unit
C) net relevant costs are $2 per unit
D) differential costs are $4 per unit
Answer: D

17) W.T. Ginsburg Engine Company manufactures part ACT31107 used in several of its engine models. Monthly production costs for 1,010 units are as follows:

Direct materials	$41,000
Direct labor	7,500
Variable overhead costs	34,500
Fixed overhead costs	18,000
Total costs	$101,000

It is estimated that 7% of the fixed overhead costs assigned to ACT31107 will no longer be incurred if the company purchases ACT31107 from the outside supplier. W.T. Ginsburg Engine Company has the option of purchasing the part from an outside supplier at $94.75 per unit.

The maximum price that W.T. Ginsburg Engine Company should be willing to pay the outside supplier is ---
A) $82 per ACT31107 part
B) $83.43 per ACT31107 part
C) $100 per ACT31107 part
D) $101.25 per ACT31107 part
Answer: B
Explanation: Avoidable costs = $84,260 / 1,010 units = $83.43 per part

18) A study by a consultant shows that a company that had $2,000,000 of inventory was holding excess inventory of $320,000 that could be eliminated with a few process improvements. It also has $620,000 in marketable securities that yield 5% per year. What is the estimated annual opportunity cost of holding the excess inventory?
A) $16,000
B) $100,000
C) $31,000
D) $47,000
Answer: A (Explanation: $320,000 x 5% = $16,000)

19) Rubium Micro Devices currently manufactures a subassembly for its main product. The costs per unit are as follows:

Direct materials	$ 54
Direct labor	35
Variable overhead	40
Fixed overhead	34
Total	$163

Crayola Technologies Inc. has contacted Rubium with an offer to sell 6,000 of the subassemblies for $144 each. Rubium will eliminate $89,000 of fixed overhead if it accepts the proposal. Should Rubium make or buy the subassemblies? What is the difference between the two alternatives?
A) Buy; savings = $89,000
B) Buy; savings = $7,000
C) Make; savings = $1,000
D) Make; savings = $203,000
Answer: C
Explanation: Cost to buy: 6,000 × $144.00 = $864,000
Cost to make: [($54.00 + $35.00 + $40.00) × 6,000 + $89,000] = $863,000
Cost savings = $864,000 - $863,000 = $1,000; make the subassemblies

20) Altec Services Corporation has relevant costs of $46 per unit to manufacture 1,050 units of Part A. A current supplier offers to make Part A for $33 per unit. Alternatively, the company can rent out the capacity for $30,000. If capacity is constrained, the opportunity cost of buying Part A from the supplier is ________.
A) $0
B) $13,650
C) $43,650
D) $30,000
Answer: D (rent)

Use the following information for questions 21-24:
Manchester Company has two products A and B. The unit sale price of product A is $100 and it has a unit variable cost $60. The unit sale price of product B is $150 and it has a unit variable cost $90.
The demand is for more units than the company can produce. There are only 30000 machine-hours of manufacturing capacity available. Five units of product A can be produced in one machine hour while only three units of product B can be produced in the same time (one machine hour).

21) The contribution margin per unit product A is
a. $100 b. $60
c. $40 d. $160

22) The contribution margin per unit product B is
a. $150 b. $90
c. $240 d. $60

23) The total contribution margin for product A is
a. $6000000
b. $3000000
c. $1200000
d.$9000000

24) The total contribution margin for product B is
a. $1800000
b. $5400000
c. $4500000
d. $2700000

25) Springer Products manufactures three different product lines, Model X, Model Y, and Model Z. Considerable market demand exists for all models. The following per unit data apply:

	Model X	Model Y	Model Z
Selling price	$50	$66	$80
Direct materials	10	10	10
Direct labor ($15 per hour)	15	15	30
Variable support costs ($5 per machine-hour)	5	10	10
Fixed support costs	12	12	12

Which model has the greatest contribution margin per unit?
A) Model X
B) Model Y
C) Model Z
D) Both Model X and Model Y have the highest and same contribution margin per unit
Answer: B
Explanation: Model X $50 - $10 - $15 - $5 = $20
Model Y $66 - $10 - $15 - $10 = $31 highest
Model Z $80 - $10 - $30 - $10 = $30

26) Springer Products manufactures three different product lines, Model X, Model Y, and Model Z. Considerable market demand exists for all models. The following per unit data apply:

	Model X	Model Y	Model Z
Selling price	$52	$60	$74
Direct materials	8	8	8
Direct labor ($16 per hour)	16	16	32
Variable support costs ($5 per machine-hour)	5	10	10
Fixed support costs	12	12	12

If there is excess capacity, which model is the most profitable to produce?
A) Model X
B) Model Y
C) Model Z
D) Both Model X and Model Y have same and highest profitability
Answer: B
Explanation: Model Y, since it has the greatest contribution margin per unit
Model X $52 - $8 - $16 - $5 = $23
Model Y $60 - $8 - $16 - $10 = $26 highest
Model Z $74 - $8 - $32 - $10 = $24

27) Springer Products manufactures three different product lines, Model X, Model Y, and Model Z. Considerable market demand exists for all models. The following per unit data apply:

	Model X	Model Y	Model Z
Selling price	$55	$69	$78
Direct materials	10	10	10
Direct labor ($15 per hour)	15	15	30
Variable support costs ($7 per machine-hour)	7	14	14
Fixed support costs	11	11	11

If there is a machine breakdown, which model is the most profitable to produce?
A) Model X
B) Model Y
C) Model Z
D) Both Model X and Model Y have same and highest profitability
Answer: A
Explanation: Model X since it has the greatest contribution margin per machine-hour
Model X $55 - $10 - $15 - $7 = $23 / 1 = $23 highest
Model Y $69 - $10 - $15 - $14 = $30 / 2 = $15
Model Z $78 - $10 - $30 - $14 = $24 / 2 = $12

28) Kinnane's Fine Furniture manufactures two models, Standard and Premium. Weekly demand is estimated to be 106 units of the Standard Model and 74 units of the Premium Model. The following per unit data apply:

	Standard	Premium
Contribution margin per unit	$21	$24
Number of machine-hours required	3	6

If there are 495 machine-hours available per week, how many rockers of each model should Kinnane produce to maximize profits?
A) 106 units of Standard and 29 units of Premium
B) 17 units of Standard and 74 units of Premium
C) 106 units of Standard and 74 units of Premium
D) 83 units of Standard and 41 units of Premium
Answer: A
Explanation: Standard (106 units × 3 mh) + Premium (29 units × 6 mh) = 495 machine-hours of the constrained resource

29) Colonial North Manufacturing, Inc. is considering eliminating one of its product lines. The fixed costs currently allocated to the product line will be allocated to other product lines upon discontinuance. What financial effects occur if the product line is discontinued?
A) net income will decrease by the amount of the contribution margin of the product line being discontinued
B) the company's total fixed costs will increase by the amount of the contribution margin of the product line being discontinued
C) the company's total fixed costs will decrease by the amount of the product line's fixed costs
D) net income will decrease by the amount of the product line's fixed costs
Answer: A

Use the following information for questions 30-33:
Liverpool firm is preparing to bid for a consulting job. You have estimated the costs for the consulting job to be;

Direct materials	$ 150000
Direct labour (5000 hours at 20 per hour)	100000
Variable overhead (5000 hours at 10 per hour)	50000
Total variable costs	300000
Fixed overhead costs (5000 hours at 24 per hour)	120000
Total costs	420000

Fixed overhead includes 70000 that will be incurred even if the job is not undertaken. The company normally bids jobs at the sum of (1) 200% of direct materials cost and (2) $30 per labour hour.

30) The amount of a bid using the normal formula is
A. $350000
B. $300000
C. $420000
D. $450000

31) The minimum amount of a bid equal to the relevant costs expected to be incurred to complete the job is
A. $300000
B. $350000
C. $370000
D. $420000

32) The amount of a bid that will cover the relevant costs (variable + avoidable fixed) plus markup for profit equal to 40% of relevant costs is
A. $490000
B. $420000
C. $518000
D. $588000

33) The amount of a bid that will cover the variable costs plus markup for profit equal to 60% of variable costs is
a. $560000
b. $672000
c. $592000
d. $480000

Use the following information for questions 34-35:
Zolas' Heaters is approached by Ms. Leila, a new customer, to fulfill a large one-time-only special order for a product similar to one offered to regular customers. Zolas' Heaters has excess capacity. The following per unit data apply for sales to regular customers:

Direct materials		$ 450
Direct manufacturing labor		150
Variable manufacturing support		100
Fixed manufacturing support		200
Total manufacturing costs		900
Markup (25% of total manufacturing costs)		225
Estimated selling price	$ 1125	

34) For Zolas' Heaters, what is the minimum acceptable price of this one-time-only special order?
A) $700
B) $900
C) $600
D) $1125

35) What is the Estimated selling price per unit if the markup percentage is 30%?
A) $900
B) $910
C) $1125
D) $1170

36) Dantley's Furniture manufactures rustic furniture. The cost accounting system estimates manufacturing costs to be $190 per table, consisting of 80% variable costs and 20% fixed costs. The company has surplus capacity available. It is Back Forrest's policy to add a 45% markup to full costs. Dantley's Furniture is invited to bid on a one-time-only special order to supply 180 rustic tables. What is the lowest price Dantley's Furniture should bid on this special order?

A) $22,230
B) $27,360
C) $34,200
D) $42,750

37) A segment has the following data:

Sales	$650,000
Variable costs	386,000
Fixed costs	365,500

What will be the incremental effect on net income if this segment is eliminated, assuming the fixed costs will be allocated to profitable segments?
A) $284,500 increase
B) $386,000 decrease
C) $264,000 decrease
D) $365,500 decrease
Answer: C
Explanation: Change in net income = $650,000 - $386,000 = $264,000 decrease

38) State Road Fabricators Inc. is considering eliminating Model A02777 because of losses over the past quarter. The past three months of information for Model A02777 are summarized below:

Sales (1,100 units)	$470,000
Manufacturing costs:	
Direct materials	160,000
Direct labor ($15 per hour)	80,000
Overhead	150,000
Operating loss	($80,000)

Overhead costs are 75% variable and the remaining 25% is depreciation of special equipment for model A02777 that has no resale value.

If Model A02777 is dropped from the product line, operating income will ________.
A) increase by $80,000
B) decrease by $117,500
C) increase by $37,500
D) decrease by $80,000
Answer: B
Explanation: $470,000 - $160,000 - $80,000 - $112,500 = $117,500 This product contributes $117,500 toward corporate profits, therefore, discontinuing this product will decrease operating income by $117,500.

39) The management accountant for Giada's Book Store has prepared the following income statement for the most current year:

	Cookbook	Travel Book	Classics	Total
Sales	$63,000	$179,000	$60,000	$302,000
Cost of goods sold	37,000	70,000	23,000	130,000
Contribution margin	26,000	109,000	37,000	172,000
Order and delivery processing	19,000	26,000	9,000	54,000
Rent (per sq. foot used)	3,000	3,000	3,000	9,000
Allocated corporate costs	10,000	10,000	10,000	30,000
Corporate profit	$ (6,000)	$70,000	$15,000	$79,000

If the cookbook product line had been discontinued prior to this year, the company would have reported ________.
A) greater corporate profits
B) the same amount of corporate profits
C) less corporate profits
D) resulting profits cannot be determined
Answer: C
Explanation: $63,000 - $37,000 - $19,000 - $3,000 = $4,000
The cookbook product line contributed $4,000 toward corporate profits. Without the cookbooks, corporate profits would be $4,000 less than currently reported.

40) The management accountant for Giada's Book Store has prepared the following income statement for the most current year:

	Cookbook	Travel Book	Classics	Total
Sales	$65,000	$164,000	$55,000	$284,000
Cost of goods sold	37,000	67,000	20,000	124,000
Contribution margin	28,000	97,000	35,000	160,000
Order and delivery processing	21,000	25,000	11,000	57,000
Rent (per sq. foot used)	5,000	4,000	4,000	13,000
Allocated corporate costs	10,000	10,000	10,000	30,000
Corporate profit	$ (8,000)	$58,000	$10,000	$60,000

If the travel book line had been discontinued, corporate profits for the current year would have decreased by ________.
A) $97,000
B) $72,000
C) $68,000
D) $58,000
Answer: C
Explanation: $164,000 - $67,000 - $25,000 - $4,000 = $68,000

41) Hartley's Meat Pies is considering replacing its existing delivery van with a new one. The new van can offer considerable savings in operating costs. Information about the existing van and the new van follow:

	Existing van	New van
Original cost	$50,000	$93,000
Annual operating cost	$17,500	$11,000
Accumulated depreciation	$32,000	—
Current salvage value of the existing van	$23,500	—
Remaining life	10 years	10 years
Salvage value in 10 years	$ 0	$ 0
Annual depreciation	$1,800	$9,300

Relevant costs for this decision include ________.
A) the original cost of the existing van
B) accumulated depreciation
C) the annual operating cost
D) the book value of the existing van
Answer: C

42) Hartley's Meat Pies is considering replacing its existing delivery van with a new one. The new van can offer considerable savings in operating costs. Information about the existing van and the new van follow:

	Existing van	New van
Original cost	$56,000	$95,000
Annual operating cost	$22,500	$15,000
Accumulated depreciation	$33,000	—
Current salvage value of the existing van	$27,500	—
Remaining life	10 years	10 years
Salvage value in 10 years	$ 0	$ 0
Annual depreciation	$2,300	$9,500

If Hartley's Meat Pies replaces the existing delivery van with the new one, over the next 10 years operating income will ________.
A) decrease by $95,000
B) increase by $75,000
C) decrease by $75,000
D) increase by $95,000
Answer: B
Explanation: New van ($15,000 × 10 years) - Existing van ($22,500 × 10 years) = $75,000 less in operating costs, which results in a $75,000 increase in operating income.

43) Planet Design Services, Inc., is considering replacing a machine. The following data are available:

	Old Machine	Replacement Machine
Original cost	$630,000	$510,000
Useful life in years	12	6
Current age in years	6	0
Book value	$350,000	—
Disposal value now	$122,000	—

Disposal value in 6 years	0	0
Annual cash operating costs	$102,000	$59,000

Which of the data provided in the table is a sunk cost?
A) the annual cash operating costs of the old machine
B) the annual cash operating costs of the replacement machine
C) the disposal value of the old machine
D) the original cost of the old machine
Answer: D

44) Planet Design Services, Inc., is considering replacing a machine. The following data are available:

	Old Machine	**Replacement Machine**
Original cost	$640,000	$520,000
Useful life in years	12	6
Current age in years	6	0
Book value	$400,000	—
Disposal value now	$162,000	—
Disposal value in 6 years	0	0
Annual cash operating costs	$107,000	$61,000

For the decision to keep the old machine, the relevant costs of keeping the old machine is ________.
A) $492,000
B) $642,000
C) $804,000
D) $107,000
Answer: B
Explanation: Relevant cost = $107,000 × 6 = $642,000

45) Planet Design Services, Inc., is considering replacing a machine. The following data are available:

	Old Machine	**Replacement Machine**
Original cost	$650,000	$510,000
Useful life in years	10	5
Current age in years	5	0
Book value	$400,000	—
Disposal value now	$142,000	—
Disposal value in 5 years	0	0
Annual cash operating costs	$100,000	$66,000

The difference between keeping the old machine and replacing the old machine is ________.
A) $910,000 in favor of keeping the old machine
B) $198,000 in favor of keeping the old machine
C) $910,000 in favor of replacing the old machine
D) $198,000 in favor of replacing the old machine
Answer: B
Explanation: New [$510,000 + (5 × $66,000) - $142,000] - Old [(5 × $100,000)] = $198,000

46) Golden Generator Supply is approached by Mr. Stephen, a new customer, to fulfill a large one-time-only special order for a product similar to one offered to regular customers. Golden Generator Supply has excess capacity. The following per unit data apply for sales to regular customers:

Direct materials	$1800.00
Direct manufacturing labor	130.00
Variable manufacturing support	210.00
Fixed manufacturing support	150.00
Total manufacturing costs	2290.00
Markup (20% of total manufacturing costs)	458.00
Estimated selling price	$2748.00

For Golden Generator Supply, what is the minimum acceptable price of this one-time-only special order?
A) $1930.00
B) $2140.00
C) $2290.00
D) $2748.00
Answer: B
Explanation: Price for special order = $1800 + $130 + $210 = $2140.00.

47) Golden Generator Supply is approached by Mr. Stephen, a new customer, to fulfill a large one-time-only special order for a product similar to one offered to regular customers. Golden Generator Supply has excess capacity. The following per unit data apply for sales to regular customers:

Direct materials	$1900.00
Direct manufacturing labor	120.00
Variable manufacturing support	210.00
Fixed manufacturing support	170.00
Total manufacturing costs	2400.00
Markup (25% of total manufacturing costs)	600.00
Estimated selling price	$3000.00

If Golden Generator Supply accepts the order at $2640, what is the amount contributed towards fixed costs and profit on a sales order of 1600 units?
A) $384,000
B) $656,000
C) $1,232,000
D) $992,000
Answer: B
Explanation: Contribution per unit = $410 ($2640 - $2230). Total contribution = $656,000 ($410 × 1600).
38) Relevant costs for target pricing are ________.
A) variable manufacturing costs
B) variable manufacturing and variable nonmanufacturing costs
C) all fixed costs
D) all future costs, both variable and fixed
Answer: D

48) Place the following steps for the implementation of target costing in order:

A = Derive a target cost
B = Develop a target price
C = Perform value engineering
D = Determine target operating income

A) B D A C
B) B A D C
C) A D B C
D) A B C D

Answer: B

49) After conducting a market research study, Magnificent Manufacturing decided to produce a new interior door to complement its exterior door line. It is estimated that the new interior door can be sold at a target price of $260. The annual target sales volume for interior doors is 20,000. Magnificent has target operating income of 40% of sales.

What is the target cost for each interior door?
A) $364
B) $260
C) $156
D) $104
Answer: C
Explanation: Estimated sales revenue = $260 × 20,000 units = $5,200,000.
Target operating income = $5,200,000 × 40% = $2,080,000.
Target cost = $5,200,000 - $2,080,000 = $3,120,000.
Target cost per unit = $3,120,000 / 20,000 units = $156 .

50) Sales of Granite City Products Inc. have been on a steady decline for the last 12 months. A market research study conducted revealed that the product of Granite City Products Inc. can be sold only for $440 as opposed to the current market price charged of $540 per unit. Granite City Products Inc. has decided to revise its sales price to $440. The annual sales target volume of the product after price revision is 260 units. Granite City Products Inc. wants to earn 30% on its sales amount.

What are the target sales revenues?
A) $148,720
B) $114,400
C) $80,080
D) $42,120
Answer: B
Explanation: The target sales revenues is $114,400 ($440 × 260).

51) After conducting a market research study, Magnificent Manufacturing decided to produce a new interior door to complement its exterior door line. It is estimated that the new interior door can be sold at a target price of $240. The annual target sales volume for interior doors is 21,000 units. Magnificent has target operating income of 20% of sales.

What is the total target cost?
A) $6,048,000
B) $5,040,000
C) $4,032,000
D) $1,008,000

52) Sales of Granite City Products Inc. have been on a steady decline for the last 12 months. A market research study conducted revealed that the product of Granite City Products Inc. can be sold only for $480 as opposed to the current market price charged of $580 per unit. Granite City Products Inc. has decided to revise its sales price to $480. The annual sales target volume of the product after price revision is 280 units. Granite City Products Inc. wants to earn 30% on its sales amount.

What is the target cost per unit?

A) $625
B) $336
C) $480
D) $145

53) Sales of Granite City Products Inc. have been on a steady decline for the last 12 months. A market research study conducted revealed that the product of Granite City Products Inc. can be sold only for $420 as opposed to the current market price charged of $520 per unit. Granite City Products Inc. has decided to revise its sales price to $420. The annual sales target volume of the product after price revision is 280 units. Granite City Products Inc. wants to earn 30% on its sales amount.

What is the target operating income?

A) $82,320
B) $35,280
C) $117,600
D) $152,880

Answer: B

Explanation: The target sales revenues is $117,600 ($420 × 280).
The target operating income is $35,280 ($117,600 × 30%).

54) Sales of Granite City Products Inc. have been on a steady decline for the last 12 months. A market research study conducted revealed that the product of Granite City Products Inc. can be sold only for $500 as opposed to the current market price charged of $600 per unit. Granite City Products Inc. has decided to revise its sales price to $500. The annual sales target volume of the product after price revision is 200 units. Granite City Products Inc. wants to earn 40% on its sales amount.

What is the total target cost?

A) $140,000
B) $60,000
C) $100,000
D) $40,000

Answer: B

Explanation: The target sales revenues is $100,000 ($500 × 200).
The target operating income is $40,000 ($100,000 × 40%).
The target cost is $60,000 ($100,000 - $40,000).

55) Sales of Granite City Products Inc. have been on a steady decline for the last 12 months. A market research study conducted revealed that the product of Granite City Products Inc. can be sold only for $480 as opposed to the current market price charged of $580 per unit. Granite City Products Inc. has decided to revise its sales price to $480. The annual sales target volume of the product after price revision is 280 units. Granite City Products Inc. wants to earn 30% on its sales amount.

What is the target cost per unit?
A) $625.00
B) $336.00
C) $480.00
D) $145.00

Answer: B
Explanation: The target sales revenues is $134,400 ($480 × 280).
The target operating income is $40,320 ($134,400 × 30%).
The target cost is $94,080 ($134,400 - $40,320).
The target cost per unit is $94,080 / 280 = $336.00

Use the following information for questions 56-58:
Essex Company produces three products A, B and C at a total joint cost of $400000.If the company sells the products at split- off, the sales would have been A, $140000, B, $160000, And C, $200000. If the products are processed further, the sales and additional costs will be as follows:

Product	Sales	Additional processing costs
A	$200000	$40000
B	$210000	$55000
C	$290000	$60000

Instructions

56)The total operating income if the company sells all products at split-off is:
A) $100000
B) $300000
C) $145000
D) $300000
Answer: A

57) Which products should be sold at the split-off? Which should be processed further?
A) A and C be sold at the split-off, and B should be processed further.
B) B be sold at the split-off, and A and C should be processed further.
C) A and B be sold at the split-off, and C should be processed further.
D) B and C be sold at the split-off, and A should be processed further.
Answer: B

58)The total operating income if your plan is followed:
A) $150000
B) $100000
C) $145000
D) $300000
Answer: A

59) Which of the following is true of a budget?
A) Budgets are used to express only the operational plans and not the strategic plans of a company.
B) Budgets do not account for nonfinancial aspects of the upcoming period.
C) Budgets are most useful when they are planned independent of the company's strategic plans.
D) Budgets help managers to revise their plans and strategies.
Answer: D

60) Which of the following is a financial budget?
A) budgeted balance sheet
B) cash receivables budget
C) production budget
D) cost of goods sold budget
Answer: A

61) Which of the following statements is true of budgets?
A) Master budgets express management's operating and financial plans.
B) Financial budgets are prepared before the master budget is prepared.
C) Operating budgets are prepared independently of the master budget.
D) The budgeted balance sheet is the first budget prepared as management is very much concerned with projected financial position
Answer: A

62) Orange Corporation has budgeted sales of 23,000 units, targeted ending finished goods inventory of 9,000 units, and beginning finished goods inventory of 6,000 units. How many units should be purchased next year?
A) 38,000 units
B) 32,000 units
C) 26,000 units
D) 23,000 units
Answer: C
Explanation: Number of units to be purchased next year = 23,000 units (estimated sales) + 9,000 units (budgeted ending inventory) - 6,000 units (opening inventory) =

63) The following information pertains to Monroe Company:

Month	**Sales**
January	$ 67,000
February	$ 88,000
March	$100,000

·Cash is collected from customers in the following manner:

Month of sale	30%
Month following the sale	70%

How much cash will be collected from customers in March?
A) $96,400
B) $91,600
C) $100,000
D) $118,000
Answer: B
Explanation: ($88,000 × 70%) + ($100,000 × 30%) = $91,600

Use the following information for questions 64-65:
The following information pertains to Monroe Company:

Month	Sales
January	$ 200,000
February	$ 300,000
March	$ 400,000
April	$ 500,000

·Cash is collected from customers in the following manner:

Month of sale	20%
Month following the sale	50%
Month next following	30%

64) How much cash will be collected from customers in March?
A) $ 290,000
B) $ 310,000
C) $ 390,000
D) $ 320,000
Answer: A
Explanation: ($400,000 × 20%) + ($300,000 × 50%) + ($200,000 × 30%) = $290,000

65) How much cash will be collected from customers in April?
A) $ 290,000
B) $ 390,000
C) $ 310,000
D) $ 320,000
Answer: A
Explanation: ($500,000 × 20%) + ($400,000 × 50%) + ($300,000 × 30%) = $390,000

Comment:

All above questions are required in addition to exercises were solved in lectures.

Best Wishes