

Final review- 3106

1. The difference between sales and cost of goods sold is called:
 - A. net income.
 - B. gross profit.
 - C. contribution margin.
 - D. finished goods inventory.
2. All else being equal, which of the following would *not* cause the contribution margin to decrease?
 - A. An increase in total variable costs.
 - B. A decrease in sales volume.
 - C. A decrease in variable costs per unit.
 - D. A decrease in the sales price per unit.

3. Bergman Inc. has the following product information available:

Sales price	\$12 per unit
Variable costs	\$ 4 per unit
Fixed costs	\$15,600
Units sold	10,400

4. Refer to the Bergman Inc. information above. What is the break-even point in units?
 - A. 1,950
 - B. 891
 - C. 975
 - D. 2,400
5. Refer to the Bergman Inc. information above. How many units needs to be sold in order to earn a target profit of \$150,000?
 - A. 25,477
 - B. 20,700
 - C. 10,350
 - D. 18,750
6. Tucker Corp. has the following product information:

Sales price	\$12 per unit
Contribution margin ratio	40%
Fixed costs	\$45,000

Refer to the Tucker Corp. information above. What is the break-even point in sales dollars?

- A. \$ 45,000
- B. \$ 12,500
- C. \$1,350,000
- D. \$ 9,375

7. A local science museum normally sells tickets to its museum for \$6 each. The daily maximum capacity of the museum is 500 visitors. At the maximum capacity, fixed costs are \$3 per visitor and variable costs are \$.50 per visitor. A local school group has approached the museum wishing to purchase 25 special passes at a cost of \$2.00 each. Assuming the museum has excess capacity, if the special order were accepted, net income would:
- increase by \$37.50.
 - decrease by \$87.50.
 - increase by \$50.00.
 - decrease by \$37.50.

8. Henderson Manufacturing Inc. manufactures electric scooters. The company currently makes all of the electronic components for the scooter itself. When 6,000 motors are manufactured each year, the motor costs per unit are as follows:

Direct materials	\$3
Direct labor	4
Variable overhead	5
Fixed overhead	8

Plymouth Inc. has offered to sell Henderson 6,000 motors for \$15 per unit. If Henderson accepts the offer, 60% of the fixed overhead currently allocated to the motors could be avoided.

9. Refer to the Henderson Manufacturing Inc. information above. What are the relevant costs per unit of Henderson manufacturing the motors themselves?
- \$16.80
 - \$15.20
 - \$20.00
 - \$12.00

10. Joyner Products makes cedar garden benches in three sizes: small, medium, and large. Joyner sells the benches to local retailers. The benches can be sold with or without assembly. The following information is available for each table:

	<u>Small</u>	<u>Medium</u>	<u>Large</u>
Initial sales price	\$90	\$150	\$250
Initial cost	30	45	70
Sales price after assembly	110	180	260
Cost of assembly	15	20	25
Number sold per month	120	350	150

- Refer to the Joyner Products information above. Which bench(es) should be assembled before they are sold to retailers?
- Small and medium
 - Medium and large
 - Small and large
 - Small, medium, and large

11. A local chain department store grants each of its store managers the authority to make buying decisions for their stores. Granting managers this kind of authority is found in which type of organization?
 - A. Segmented
 - B. Centralized
 - C. Desegmented
 - D. Decentralized

12. Which of the following is an *advantage* of decentralization?
 - A. It allows top-level management who normally work at corporate headquarters to get involved with the day-to-day decisions that need to be made at lower levels.
 - B. It allows managers to focus on their own area of responsibility rather than what is best for the company as a whole.
 - C. It allows decisions to be made in a more timely manner.
 - D. It requires very little as far as manager training costs.

13. Which type of manager would be allowed to decide whether or not new manufacturing equipment should be purchased?
 - A. Production manager
 - B. Cost center manager
 - C. Profit center manager
 - D. Investment center manager

14. Which of the following is the correct formula to compute residual income?
 - A. Average operating assets - Net operating income
 - B. Average operating assets - (Net operating income \times Minimum required rate of return)
 - C. Net operating income \times Minimum required rate of return
 - D. Net operating income - (Average operating assets \times Minimum required rate of return)

15. Which of the following is *not* one of the perspectives that is usually examined under the balanced scorecard approach?
 - A. Learning and growth perspective
 - B. Internal business perspective
 - C. Creditor perspective
 - D. Customer perspective

16. Determining the market share for a company's product would be a measure of performance under which perspective of the balanced scorecard?
 - A. Internal business
 - B. Customer
 - C. Financial
 - D. Learning and growth

17. Increasing information systems capabilities would be a critical success factor found in which perspective of the balanced scorecard?
 - A. Internal business
 - B. Customer
 - C. Financial
 - D. Learning and growth

18. Which of the following is generally *not* one of the classifications of quality costs?
- A. Appraisal (detection) costs
 - B. Prevention costs
 - C. Internal control costs
 - D. External failure costs
19. CLR Inc. is a clothing manufacturer. Recently, CLR made and produced about 2,000 shirts. During the production process, some of the shirts did not have the required number of buttons sewed on. CLR has decided to rework the shirts to add the buttons. These rework costs would most likely be classified as which type of quality cost?
- A. Internal failure costs
 - B. Appraisal (detection) costs
 - C. Prevention costs
 - D. External failure costs
20. Which of the following statements regarding budgets is *true*?
- A. They rarely use estimates.
 - B. They should not be used for performance evaluations.
 - C. They should focus on past performance.
 - D. They will likely require the input of more than one manager.
21. Which of the following is *not* a consideration in the preparation of a sales budget or sales forecast?
- A. General economic trends.
 - B. Anticipated marketing or advertising plans.
 - C. Issuance of the current year's financial statements.
 - D. Anticipated price changes in both purchasing costs and sales prices.
22. In 2007, Truman Products sold 900,000 units at \$9 each. Sales volume is expected to increase by 10 percent in 2008 while the price of each unit is expected to decrease by 15 percent. The expected sales revenue for 2008 is:
- A. \$8,761,500
 - B. \$1,336,500
 - C. \$7,573,500
 - D. \$6,885,000
23. Which of the following budgets would probably *not* be prepared using information provided by the production budget?
- A. Direct materials budget
 - B. Direct labor budget
 - C. Manufacturing overhead budget
 - D. Sales budget
24. Porcelain Interiors sells a variety of porcelain products including porcelain sinks. At December 31, the company had 200 sinks in inventory. The company's policy is to maintain a sink inventory equal to 5% of next month's sales. The company expects the following sales activity for the first quarter of the year:

January 1,500 sinks

February	2,000 sinks
March	2,300 sinks

What is the projected production for February?

- A. 2,115
- B. 2,015
- C. 1,985
- D. 2,215

25. A budget that budgets costs for the actual number of units produced is called a:

- A. master budget.
- B. summary cash budget.
- C. static budget.
- D. flexible budget.

26. Carson Products Inc. manufactures LEDs (light emitting diodes) for use in vehicles. At September 30, the company had 5,000 LED units in inventory. The company's policy is to maintain a LED ending inventory equal to 25% of next month's sales. In addition, each LED manufactured requires 2 minutes of assembly and inspecting time at a cost of \$.30 per minute.

The company expects the following sales activity for the fourth quarter of the year:

October	90,000 units
November	100,000 units
December	80,000 units

What is the projected direct labor cost for November?

- A. \$72,000
- B. \$63,000
- C. \$60,000
- D. \$57,000

27. Which of the following events will cause a company's current ratio to decrease?

- a. The sale of inventory for cash.
- b. The sale of inventory for credit (accounts receivable).
- c. Paying off accounts payable with cash.
- d. Paying off long-term debt with cash.

28. Which statement is **true** concerning gains and losses?

- a. Gains and losses are reported on the Balance Sheet in the asset and liability sections, respectively.
- b. Gains and losses are special types of revenues and expenses that are reported on the Income Statement.
- c. The amounts of gains and losses are included in the calculations of the gross profit ratio.
- d. Gains and losses are reported only on a multi-step income statement.

39. Denton Stores, Inc. is concerned about its profitability for the current year, since its earnings have dropped 10% since last year. Which of the following is the **least** useful comparison in evaluating the drop in Denton Store's profit margin?
- Comparison with the industry average for the current year.
 - Comparison with its current ratio for the current year
 - Comparison with the profit margins for its major competitors for the current year.
 - Comparison with its profit margins for the past five years.
41. A bank loaned \$62 million to Allison Corporation to finance the construction of a new distribution warehouse. In which section of Allison's Statement of Cash Flows would you be able to determine whether the company repaid any portion of the debt during the year?
- Operating Activities
 - Investing Activities
 - Financing Activities
 - Profit Activities

Northern Shoes

Northern Shoes reported the following items on its Statement of Cash Flows for the current year:

Net cash inflows from operating activities	\$ 70,000
Net cash outflows from investing activities	(20,000)
Net cash outflows from financing activities	(40,000)
Cash balance at the beginning of the year	\$ 30,000

42. Refer to Northern Shoes. What was the amount of their net increase or decrease in the cash balance for the current year?
- \$ 10,000 increase
 - \$ 30,000 increase
 - \$ 40,000 increase
 - \$ 70,000 increase
43. Refer to Northern Shoes. What was their cash balance at the end of the current year?
- \$ 10,000
 - \$ 30,000
 - \$ 40,000
 - \$ 20,000
44. Which of the following items will be found in a corporate annual report?
- Company Budgets
 - Notes to the Financial Statements
 - Selected financial data from competitor companies
 - Managements statement that the auditors are responsible for the financial statements.
46. Upon review of Bart's Statement of Cash Flows, the following was noted:
- | | |
|--------------------------------------|----------|
| Cash flows from operating activities | \$15,000 |
| Cash flows from financing activities | (60,000) |
| Cash flows from investing activities | 80,000 |

From this information, the most likely explanation is that Bart is

- a. using cash from operations and selling long-term assets to pay back debt.
- b. using cash from operations and borrowing to purchase long-term assets.
- c. using its profits to expand growth.
- d. using cash from investors to provide for operations

47. Dawson Corp. reported the following information for 2009 and 2010.

Accounts receivable, December 31, 2009	\$ 67,000
Accounts receivable, December 31, 2010	63,000
Sales (all on credit) -- 2010	745,000

How much cash was collected from customers during 2010?

- a. \$741,000
- b. \$745,000
- c. \$749,000
- d. \$753,000

48. Which of the following is *not* a requirement of Sarbanes-Oxley?

- a. Annual report must include an internal control report
- b. External auditors can no longer provide human resource services
- c. External auditors can no longer provide brokerage services
- d. Must establish an internal control system that guarantees financial accuracy

49. Which internal control procedure is followed when management authorizes the purchasing department to order goods and services for the company?

- a. Segregation of duties
- b. Safeguarding of assets and records
- c. Independent verifications
- d. Proper authorizations

The following set of items describes activities completed by a company in purchasing and paying for merchandise. For each activity, identify whether or not the activity adheres to or violates sound internal control procedures.

50. Refer to Internal Control – Purchasing & Paying. Although the department supervisor can indicate a preferred supplier or vendor on purchase requisitions, the purchasing department has the responsibility for making the final decision on a vendor.

- a. Adheres to sound internal control procedures
- b. Violates sound internal control procedures
- c. Neither strengthens nor violates internal control

52. Which of the following is *true* regarding managerial accounting?

- a. It often emphasizes segments rather than the organization as a whole.
- b. It often must follow established rules called generally accepted accounting principles.
- c. Its primary focus is on providing information to external users.
- d. It is less flexible than financial accounting.

53. Which of the following would most likely be classified as indirect materials?
- Wood used to build a customized bookshelf
 - Lubricants used on factory machinery
 - Supplies used by the administrative employees
 - Packing pellets used for shipping products to customers
55. Which of the following *decreases* the work-in-process account?
- Raw materials used
 - Cost of goods manufactured
 - Direct labor
 - Manufacturing overhead
56. Product costs that transfer into finished goods inventory are called:
- cost of goods manufactured.
 - cost of goods sold.
 - period costs.
 - raw materials used.
57. Which of the following statements is *true* regarding activity-based costing (ABC)?
- It is based on the concept that a single cost driver can drive all overhead costs.
 - It is based on the concept that activities drive overhead costs.
 - It is based on the concept that unit-level costs drive all overhead costs.
 - It is based on the concept that either the number of direct labor or machine hours incurred drives all overhead costs.
58. Costs associated with factory insurance, maintenance, rent, property taxes, and other similar items are typically included in manufacturing overhead and assigned to products:
- primarily based on whatever technique is easiest
 - based on a related cost driver that can be identified and measured
 - if not treated as a period cost
 - based on the relative sales revenue generated by the product

NARRBEGIN: Michael's Manufacturing

Michael's Manufacturing, Inc.

Michael's Manufacturing, Inc. has the following information available for the month of July:

	<u>Beginning</u>	<u>Ending</u>
Raw materials inventory	\$50,000	\$ 62,000
Work-in-process inventory	80,000	55,000
Finished goods inventory	24,000	35,000
Raw materials purchased		\$120,000
Direct labor costs		60,000

Overhead costs

45,000

59. Refer to the Michael's Manufacturing, Inc. information above. Raw materials used for July is:
- \$112,000
 - \$108,000
 - \$120,000
 - \$132,000
60. Refer to the Michael's Manufacturing, Inc. information above. Cost of goods manufactured for July is:
- \$188,000
 - \$250,000
 - \$238,000
 - \$213,000

NARRBEGIN: Aronson & Assoc. LLP

Aronson & Associates LLP

Aronson & Associates LLP, an accounting firm, assigns overhead to clients based on direct labor hours. The following information is available for the month of March:

Estimated direct labor hours	4,000 hours
Estimated overhead costs	\$8,000
Actual direct labor hours	4,200 hours
Actual overhead costs	\$8,190

65. Refer to the Aronson & Associates LLP information above. The predetermined overhead rate for the month of March is:
- \$2.00 per direct labor hour
 - \$.50 per direct labor hour
 - \$1.95 per direct labor hour
 - \$1.90 per direct labor hour
66. Refer to the Aronson & Associates LLP information above. The amount of applied overhead for March will be:
- \$7,800
 - \$8,400
 - \$8,610
 - \$8,000
67. Refer to the Aronson & Associates LLP information above. By how much was overhead over- or underapplied for the month of March?
- \$210 overapplied
 - \$400 overapplied
 - \$190 underapplied