

Accounting 2910, Summer 2002
Practice Exam 4

- _____ 1. The cost of materials entering directly into the manufacturing process is classified as:
- a. direct labor cost
 - b. factory overhead cost
 - c. burden cost
 - d. direct materials cost
- _____ 2. If the cost of direct materials is a small portion of total production cost, it may be classified as part of:
- a. direct labor cost
 - b. selling and administrative costs
 - c. miscellaneous costs
 - d. factory overhead cost
- _____ 3. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished product is classified as:
- a. factory overhead cost
 - b. direct labor cost
 - c. wages expense
 - d. direct materials cost
- _____ 4. For which of the following businesses would the process cost system be appropriate?
- a. Book publisher
 - b. Dress designer
 - c. Lumber mill
 - d. Printing firm

- _____ 5. Which of the following items would not be classified as part of factory overhead?
- a. Direct labor used
 - b. Amortization of manufacturing patents
 - c. Production supervisors' salaries
 - d. Factory supplies used
- _____ 6. Which of the following costs are referred to as conversion costs?
- a. Direct labor cost and factory overhead cost
 - b. Direct materials cost and direct labor cost
 - c. Factory overhead cost
 - d. Direct materials cost and factory overhead cost
- _____ 7. Which of the following is considered a part of factory overhead cost?
- a. Sales commissions
 - b. Depreciation of factory buildings
 - c. Depreciation of office equipment
 - d. Direct materials used
- _____ 8. Which of the following manufacturing costs is an indirect cost of producing a product?
- a. Oil lubricants used for factory machinery
 - b. Commissions for sales personnel
 - c. Hourly wages of an assembly worker
 - d. Memory chips for a microcomputer manufacturer
- _____ 9. Sonic Company applies overhead based on machine hours. Sonic estimated \$600,000 of total overhead for 2001 and estimated total machine hours of 300,000 for 2001. Actual overhead costs for 2001 were \$731,250 and actual machine hours were 325,000. What was the Factory Overhead Rate used in 2001?
- A. \$2.00 per machine hour
 - B. \$ 2.25 per machine hour
 - C. \$1.84 per machine hour
 - D. \$2.43 per machine hour

- _____ 10. For 2001, Commerce Company used a Factory Overhead Rate of \$4.00 per Direct Labor Hour. The company had estimated 100,000 of total Direct Labor Hours when computing the overhead rate. For 2001, Commerce actually had 120,000 of Direct labor Hours and \$475,000 of Actual Overhead. What was the over/under applied amount of overhead for 2001?
- A. \$5,000 over applied
 - B. \$5,000 under applied
 - C. \$75,000 over applied
 - D. \$75,000 under applied
- _____ 11. Cost behavior refers to the manner in which:
- a. a cost changes as the related activity changes
 - b. a cost is allocated to products
 - c. a cost is used in setting selling prices
 - d. a cost is estimated
- _____ 12. The three most common cost behavior classifications are:
- a. variable costs, product costs, and sunk costs
 - b. fixed costs, variable costs, and mixed costs
 - c. variable costs, period costs, and differential costs
 - d. variable costs, sunk costs, and opportunity costs
- _____ 13. Costs that remain constant in total dollar amount as the level of activity changes are called:
- a. fixed costs
 - b. mixed costs
 - c. opportunity costs
 - d. variable costs
- _____ 14. Which of the following costs is an example of a cost that remains the same in total as the number of units produced changes?
- a. Direct labor
 - b. Salary of a factory supervisor
 - c. Shop Supplies
 - d. Direct materials

- _____ 15. Most operating decisions of management focus on a narrow range of activity called the:
- a. relevant range of production
 - b. strategic level of production
 - c. optimal level of production
 - d. tactical operating level of production
- _____ 16. Which of the following is an example of a cost that varies in total as the number of units produced changes?
- a. Salary of a production supervisor
 - b. Direct materials cost
 - c. Property taxes on factory buildings
 - d. Straight-line depreciation on factory equipment
- _____ 17. Which of the following is NOT an example of a cost that varies in total as the number of units produced changes?
- a. Electricity per KWH to operate factory equipment
 - b. Direct materials cost
 - c. Insurance premiums on factory building
 - d. Wages of assembly worker
- _____ 18. If sales are \$800,000, variable costs are 64% of sales, and operating income is \$240,000, what is the contribution margin ratio?
- a. 53.1%
 - b. 36%
 - c. 64%
 - d. 30%
- _____ 19. If fixed costs are \$850,000 and variable costs are 75% of sales, what is the break-even point (dollars)?
- a. \$1,133,333
 - b. \$1,983,333
 - c. \$3,400,000
 - d. \$2,550,000

- _____ 20. If fixed costs are \$500,000, the unit selling price is \$40, and the unit variable costs are \$32, what is the break-even sales (units) if fixed costs are reduced by \$80,000?
- 60,500 units
 - 52,500 units
 - 62,500 units
 - 64,500 units
- _____ 21. If fixed costs are \$500,000, the unit selling price is \$40, and the unit variable costs are \$32, what is the break-even sales (units) if fixed costs are increased by \$80,000?
- 52,500 units
 - 60,500 units
 - 72,500 units
 - 62,500 units
- _____ 22. If fixed costs are \$850,000 and the unit contribution margin is \$10, what amount of units must be sold in order to have a zero profit?
- 9,444
 - 8,500
 - 850,000
 - 85,000
- _____ 23. Jones Company produced 40,000 units at a Total Cost of \$120,000 in 1999. In 2000, Jones produced 50,000 units at a Total Cost of \$180,000. Using the High-Low method, what was Jones' Variable Cost per Unit?
- \$3.00
 - \$4.00
 - \$5.00
 - \$6.00
- _____ 24. If variable costs per unit decreased because of a decrease in utility rates, the break-even point would:
- decrease
 - increase
 - remain the same
 - increase or decrease, depending upon the percentage increase in utility rates
- _____ 25. The amount of increase or decrease in cost that is expected from a particular course of action as compared with an alternative is termed:

- a. period cost
- b. product cost
- c. differential cost
- d. discretionary cost

_____ 26. The condensed income statement for a business for the past year is as follows:

	Product	
	T	U
Sales.....	\$500,000	\$750,000
Less variable costs.....	<u>400,000</u>	<u>550,000</u>
Contribution margin.....	\$100,000	\$200,000
Less fixed costs	<u>135,000</u>	<u>120,000</u>
Income (loss) from operations.....	\$(35,000)	\$ 80,000
	=====	=====

Management is considering the discontinuance of the manufacture and sale of Product T at the beginning of the current year. The discontinuance would have no effect on the total fixed costs and expenses or on the sales of Product U. What is the amount of change in net income for the current year that will result from the discontinuance of Product T?

- a. \$35,000 increase
 - b. \$100,000 increase
 - c. \$35,000 decrease
 - d. \$100,000 decrease
- _____ 27. A business is operating at 90% of capacity and is currently purchasing a part used in its manufacturing operations for \$30 per unit. The unit cost for the business to make the part is \$40, including fixed costs, and \$32, not including fixed costs. If 10,000 units of the part are normally purchased during the year but could be manufactured using unused capacity, what would be the amount of differential cost increase or decrease from making the part rather than purchasing it?
- a. \$20,000 cost decrease
 - b. \$100,000 cost increase
 - c. \$20,000 cost increase
 - d. \$100,000 cost decrease
- _____ 28. A business received an offer from an exporter for 5,000 units of product at \$8 per unit. The acceptance of the offer will not affect normal production or domestic sales prices. The following data are available:

Domestic unit sales price.....	\$12
Unit manufacturing costs:	
Variable.....	9
Fixed.....	1

What is the differential revenue from the acceptance of the offer?

- a. \$45,000
- b. \$40,000
- c. \$50,000
- d. \$20,000

- _____ 29. A business received an offer from an exporter for 5,000 units of product at \$8 per unit. The acceptance of the offer will not affect normal production or domestic sales prices. The following data are available:

Domestic unit sales price.....	\$12
Unit manufacturing costs:	
Variable.....	9
Fixed.....	1

What is the differential cost from the acceptance of the offer?

- a. \$20,000
- b. \$40,000
- c. \$5,000
- d. \$45,000

- _____ 30. Benson Co. is considering disposing of a machine with a book value of \$125,000 and estimated remaining life of five years. The old machine can be sold for \$15,000. A new high-speed machine can be purchased at a cost of \$250,000. It will have a useful life of five years and no residual value. It is estimated that annual variable manufacturing costs will be reduced from \$260,000 to \$235,000 if the new machine is purchased. The annual net differential increase or decrease in cost for the new equipment is:

- a. decrease of \$22,000
- b. decrease of \$150,000
- c. increase of \$22,000
- d. increase of \$110,000

- _____ 31. What cost concept used in applying the cost-plus approach to product pricing covers selling expenses, administrative expenses, and desired profit in the "markup?"

- a. Total cost concept
- b. Product cost concept
- c. Variable cost concept
- d. Sunk cost concept

- _____ 32. What cost concept used in applying the cost-plus approach to product pricing includes only total manufacturing costs in the "cost" amount to which the markup is added?
- a. Variable cost concept
 - b. Total cost concept
 - c. Product cost concept
 - d. Opportunity cost concept

Answers:

1. D
2. D
3. B
4. C
5. A
6. A
7. B
8. A
9. A $\$600,000 / 300,000 = \2.00
10. A $120,000 \times \$4.00 = \$480,000$. $\$480,000 - \$475,000 = \$5,000$ OVER
11. A
12. B
13. A
14. B
15. A
16. B
17. C
18. B Sales = 100%. Sales – Var Costs = Cont. Margin. $100\% - 64\% = 36\%$

- 19 C $850,000 / 25\% = 3,400,000$

- 20 B $(500,000 - 80,000) / (40 - 32) = 52,500$

- 21 C $(500,000 + 80,000) / (40 - 32) = 72,500$

- 22 D $850,000 / 10 = 85,000$

- 23 D $(180,000 - 120,000) / (50,000 - 40,000) = \6.00

- 24 A
- 25 C
- 26 D
- 27 C Variable Cost of \$32 – Purchase \$30 = \$2 X 10,000 units
- 28 B Diff revenue is $5,000 \times \$8 = \$40,000$
- 29 D Diff costs is Variable of $\$9 \times 5,000 = \$45,000$
- 30 C Variable Savings per year of $\$25,000 \times 5$ years = \$125,000
 $\$250,000 - \$125,000 - \$15,000 = \$110,000$ over 5 years
 $\$110,000 / 5$ yrs = \$22,000 per year
31. A
32. C