

Exam No: ____

Dr. M.D. Chase
Accounting 610
Examination 1
Chapters 1-8,11
Horngren et.al. 15th

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Business ethics are the cornerstone of a successful free enterprise economy. Personal ethics are the foundation for all personal intercourse. In the University setting, ethical behavior is part of academic honesty. Please read and sign the following statement:

This examination represents my sole effort. I have neither given nor received aid in the completion of this examination.

Signed: _____

Printed name: _____

- 1) MDC Company has a contribution-margin ratio of 0.30. Targeted net income is \$76,800 and targeted sales volume in dollars is \$480,000. What are total fixed costs?
A) \$67,200 B) \$23,000 C) \$44,160 D) \$144,000
- 2) MDC Company has a break-even point of 88,000 units. The contribution margin per unit is \$9.60. The desired pre-tax profit is \$18,096. How many units must be sold to achieve the desired profit?
A) indeterminate B) 88,000 units C) 89,885 units D) 1,885 units
- 3) MDC Company has the following information available:
Selling price per unit \$5.00
Variable cost per unit \$3.50
Total fixed costs \$90,000.00
Targeted net income \$30,000.00
How many units must be sold to achieve the targeted net income
A) 10,000 units B) 80,000 units C) 45,000 units D) 27,000 units
- 4) The following information is available for Kismer Corporation:
Total fixed costs \$313,500
Variable costs per unit \$90
Selling price per unit \$150

If management has a targeted net income of \$59,400, then sales revenue should be _____.

- A) \$932,250 B) \$671,220 C) \$580,067 D) \$239,721

- 5) The process of identifying appropriate cost drivers and their effects on the costs of making a product or providing a service is called _____.
A) action analysis B) account analysis
C) cost measurement D) activity analysis
- 6) The cost of the Maintenance Department at Forest Manufacturing has always been charged to the production departments based on the number of employees. Recently, an activity analysis of possible cost drivers was performed which indicated that the square feet of space may also be a predictor of costs to be assigned to each production department. The Maintenance Department cost is \$1,000,000. The following data is available:
Production Departments

	Dept. X	Dept. Y	Dept. Z
Number of Employees	300	250	50
Square Feet of Space	15,000	25,000	10,000

Required:

Determine the amount of the maintenance department cost that should be allocated to Department X if the cost driver used is:

- (A) number of employees and
(B) square feet of space.

- 7) In account analysis, users rely on the _____ for information about cost behavior.
A) value chain B) accounting system
C) management audit D) performance report

8) Presented below is the production data for the first six months of the year showing the mixed costs incurred by MDC Company.

Month	Cost	Units
January	\$7,500	4,000
February	13,000	7,500
March	11,500	9,000
April	11,700	11,500
May	13,500	12,000
June	11,850	6,000

MDC Company uses the high-low method to analyze mixed costs. The variable cost per unit is _____.

- A) \$1.35 B) \$1.31 C) \$1.25 D) \$0.75

9) A disadvantage of the visual-fit method to approximate a cost function is _____.

- A) it is costly to apply
- B) it does not capture the general tendency of the data
- C) it does not use all the available data
- D) the placement of the line is subjective

10) _____ is a name for a system that first accumulates indirect resource costs for each of the activities of an organization and then assigns the cost of each activity to the cost objects that require that activity.

- A) Activity-based costing B) Activity-based allocation
- C) Cost accounting D) Activity-based management

11) SLOW Company has determined the following information about a new product. The manufacturing process used for the product is very complex and it has a higher proportion of indirect costs than direct costs. The company wants a 100% markup on cost. The following data is available:

Product cost according to traditional costing system..... \$4.00 per unit
Product cost according to activity-based costing system..... \$7.00 per unit
What price per unit should SLOW Company use for this new product?

- A) \$8.00 B) \$4.00 C) \$14.00 D) \$7.00

12) Yesterday Bank had the following activities, traceable costs, and physical flow of driver units:

Activities	Traceable Costs	Physical Flow of Driver Units
Open new accounts	\$40,000	1,000 accounts
Process deposits	\$72,000	360,000 deposits
Process withdrawals	\$100,000	200,000 withdrawals

The above activities are used by Downtown branch and North branch as follows:

Activities	Downtown	North
Open new accounts	200	400
Process deposits	40,000	20,000
Process withdrawals	15,000	18,000

Required:

- A) Compute the new account cost assigned to the Downtown branch.
- B) Compute the deposit processing cost assigned to the North branch.
- C) Compute the withdrawal processing cost assigned to the North branch.

13) _____ is the process of comparing products against the best industry standards.

- A) Activity-based costing
- B) GPK
- C) Benchmarking
- D) Continuous process improvements

14) A value-added cost is the cost of an activity that a company can eliminate without affecting the product's value to the customer. True/False

15) _____ is the additional cost resulting from producing and selling one additional unit.

- A) Opportunity cost
- B) Common cost
- C) Target cost
- D) Marginal cost

16) In perfect competition, additional sales will be profitable if _____.

- A) the fixed cost equals the contribution margin
- B) sales price exceeds the variable product cost
- C) the marginal cost is less than marginal revenue
- D) total variable cost is less than sales price

17) Predatory pricing occurs when a firm sets _____.

- A) different prices for different customers for the same product or service
- B) prices so low that competitors are driven out of the market
- C) prices below their competitors' prices
- D) uniform prices

18) MDC Company has budgeted sales of \$30,000 with the following budgeted costs:

Direct materials	\$6,300
Direct labor	4,100
Variable factory overhead	3,700
Fixed factory overhead	5,600
Variable selling and administrative costs	2,400
Fixed selling and administrative costs	3,200

Required:

Compute the average target markup percentage for setting prices as a percentage of:

- A) Total costs
- B) Total variable costs
- C) Variable manufacturing costs
- D) Total manufacturing costs

19) _____ is(are) an example of joint products.

- A) Products of petroleum refining
- B) Chemicals
- C) Flour
- D) All of the above

20) _____ costs are costs of manufacturing two or more products that are not separately identifiable as individual products until their split-off point.

- A) Separable B) Joint C) Sunk D) Incremental

21) Triple Corporation has a joint process that produces two products: A and B. Each product may be sold at the split-off point or processed further and then sold. Joint-processing costs for a year are \$25,000.

Product A can be sold at the split-off point for \$32,000. Alternatively, Product A can be processed further and sold for \$40,000. Additional processing costs are \$5,000.

When deciding whether to sell Product A at the split-off point or to process further, the _____ is NOT relevant.

- A) sales value at completion of \$40,000 B) joint processing cost of \$25,000
C) additional processing cost of \$5,000 D) sales value at split-off of \$32,000

22) MDC Triangle Corporation has a joint process that produces three products: X, Y and Z. Each product may be sold at split-off or processed further and then sold. Joint-processing costs for a year amount to \$100,000. Other data follows:

Product	Sales Value at Split-Off	Separable Processing Costs after Split-Off	Sales Value at Completion
X	\$128,000	\$16,000	\$160,000
Y	50,000	27,000	76,000
Z	25,600	20,000	40,000

To maximize profits, the corporation should process _____ further.

- A) Product X only B) Products X, Y and Z
C) Product Y only D) Product Z only

23) The first step in preparing the master budget is the _____.

- A) cash budget B) sales budget
C) operating expense budget D) capital budget

24) Pinto Company has the following data:

Month	Budgeted Sales
January	\$108,000
February	132,000
March	144,000
April	120,000

Cost of goods sold average 60% of sales. The inventory at December 31 was \$19,440. Desired ending inventory levels are 30% of next month's sales at cost. What is the desired ending inventory value at February 28?

- A) \$25,920 B) \$23,760 C) \$39,600 D) \$43,200

25) Godwin Company is preparing a cash budget for the month of June. The following information is available:

Cash Balance, May 31, 2010	\$10,000
Cash collections from customers in June	46,000
Cash paid for merchandise in June	42,000
Paid operating expenses in June	12,000
Purchase furniture for cash in June	3,000
Depreciation expense in June	1,000
Amortization expense in June	1,000

The minimum cash balance desired is \$10,000. What are the net cash receipts and disbursements for the month of June?

- A) \$(11,000) B) \$(13,000) C) \$(9,000) D) \$(8,000)

26) _____ models are mathematical models of the master budget that can react to any set of assumptions about sales, costs and product mix.

- A) Long-range B) Strategic
C) Operating budget D) Financial planning

27) The following data are for Pepperdine Corporation:

	Actual	Static Budget	Flexible Budget for Actual Sales Activity
Units	18,000	16,000	18,000
Sales	\$360,000	\$320,000	\$360,000
Variable costs	234,000	192,000	216,000
Contribution margin	\$126,000	\$128,000	\$144,000
Fixed costs	76,000	80,000	80,000
Operating income	\$50,000	\$48,000	\$64,000

The sales activity variance for operating income is _____.

- A) \$16,000 Unfavorable B) \$14,000 Unfavorable
C) \$14,000 Favorable D) \$16,000 Favorable

28) The quantity variance for direct materials can be computed by multiplying the standard price by the difference between the _____.

- A) standard inputs allowed and expected inputs allowed for expected output
B) quantity of inputs actually used and the quantity of inputs that should have been used for the expected output
C) quantity of inputs actually used and the quantity of inputs that should have been used for actual output
D) standard inputs allowed and expected inputs allowed at actual output

29) The following information is for MDC Corporation:

Direct Materials(measured in pounds)	
Standard price per unit of input	\$25
Actual price per unit of input	\$24
Standard inputs per unit of output	3 pounds
Actual units of input	8,300 pounds
Actual units of output	2,770 units

What is the direct material usage variance?

- A) \$250 Favorable B) \$8,300 Unfavorable
C) \$8,300 Favorable D) \$250 Unfavorable

30) D Company produces 2,500 units. Each unit was expected to require 2 labor hours at a cost of \$10 per hour. Total labor cost was \$52,250 for 4,750 hours worked. Direct labor is measured in labor hours. What is the direct labor quantity variance?

- A) \$2,500 Favorable B) \$2,500 Unfavorable
C) \$2,750 Unfavorable D) \$2,750 Favorable

31) The Vito Company makes tables for which the following standards have been developed:

	<u>Standard Inputs Expected For Each Unit of Output</u>	<u>Standard Price Expected Per Unit of Input</u>
Direct Materials	10 pounds	\$4 per pound
Direct Labor	3 hours	\$16 per hour

Production of 200 tables was expected in July, but 220 tables were actually completed. Direct materials purchased and used were 2,000 pounds at an actual price of \$4.40 per pound. Direct labor cost for the month was \$10,620, and the actual pay per hour was \$18.00. What is the direct material quantity variance for July?

- A) \$880 Unfavorable B) \$800 Favorable C) \$880 Favorable D) \$800 Unfavorable

32) The flexible budget variance for variable overhead costs is composed of a(n) _____ variance and a(n) _____ variance.

- A) efficiency; effective B) spending; rate
C) spending; efficiency D) quantity; efficiency

33) Variable overhead efficiency variances are unfavorable when actual cost driver activity exceeds the _____.

- A) activity allowed for the planned output B) activity allowed for the actual output
C) activity allowed for the expected output D) activity allowed for last period's output

34) The following data for the SeeMe Company pertain to the production of 1,000 clay bottles during July:

Standard variable overhead cost	\$26.00 per pound of clay
Variable overhead efficiency variance	\$740 Unfavorable
Total actual variable overhead cost	\$24,800
Standard variable overhead cost allowed for units produced	\$26,000

What is the variable overhead spending variance?

- A) \$1,200 Unfavorable B) \$1,260 Unfavorable
C) \$1,200 Favorable D) \$1,940 Favorable

35) When considering the cash operating inflows resulting from an investment, taxes will _____.

- A) increase the amount of the cash inflows by the tax rate
B) reduce the amount of the cash inflows by the tax rate
C) increase the amount of the cash inflows by (1 minus the tax rate)
D) reduce the amount of the cash inflows by (1 minus the tax rate)

36) Bryant Company will purchase a van for \$50,000. The van's depreciable life is 5 years. The van has no terminal salvage value. Assume a tax rate of 30% and a required after-tax rate of return of 12%. The company uses the straight-line method of depreciation for tax purposes. What is the annual after-tax cash flow from depreciation expense?

- A) \$6,000 cash inflow
- B) \$6,000 cash outflow
- C) \$3,000 cash outflow
- D) \$3,000 cash inflow

37) An asset with a book value of \$320,000 is sold for \$560,000. The tax rate is 20%. What is the tax effect of the gain?

- A) \$64,000 cash outflow
- B) \$192,000 cash outflow
- C) \$112,000 cash outflow
- D) \$48,000 cash outflow

38) The time it will take to recoup in the form of cash inflows the initial dollars invested in an investment project is called the _____.

- A) payback period
- B) accounting rate of return
- C) internal return period
- D) recovery period

39) An investment of \$42,000 is expected to generate the following annual cash flows:

Year 1 \$10,000
Year 2 \$15,000
Year 3 \$15,000
Year 4 \$12,000

Assume straight-line depreciation is used. Ignore income taxes. What is the payback period?

- A) 4 years
- B) 3 years
- C) 3.83 years
- D) 3.17 years

40) Bryant Company has obtained the following data about a possible planned investment:

Cost	\$270,000
Terminal salvage value in 8 years	\$10,000
Additional annual revenues for 8 years	\$250,000
Additional annual cash expenses for 8 years	\$200,000
Estimated useful life in years	8
Minimum desired rate of return	10%
Present value of ordinary annuity, 10%, 8 periods	5.3349
Present value of one, 10%, 8 periods	0.4665

The company uses straight-line depreciation method. Ignore income taxes.

Required:

- A) Compute the net present value of the investment.
- B) Compute the payback period.
- C) Compute the accounting rate of return using the initial required investment.