**PRACTICE FINAL**

1. Use the following information to determine the gross margin for Pacific States Manufacturing for the year just ended (all amounts are in thousands of dollars).

Sales $31,800

Purchases of direct materials 7,000

Direct labor 5,000

Work in process inventory, 1/1 800

Work in process inventory, 12/31 3,000

Finished goods inventory, 1/1 4,000

Finished goods inventory, 12/31 5,300

Accounts payable, 1/1 1,700

Accounts payable, 12/31 1,500

Direct materials inventory, 1/1 6,000

Direct materials inventory, 12/31 1,000

Indirect labor 600

Indirect materials used 500

Utilities expense, factory 1,900

Depreciation on factory equipment 3,500

1. $21,300
2. $25,300
3. $10,500
4. $11,800

2. Which costs will change with a decrease in activity within the relevant range?

A) Total fixed costs and total variable cost

B) Unit fixed costs and total variable cost

C) Unit variable cost and unit fixed cost

D) Unit fixed cost and total fixed cost

3. An increase in the activity level within the relevant range results in

A) an increase in fixed cost per unit.

B) a proportionate increase in total fixed costs.

C) an unchanged fixed cost per unit.

D) a decrease in fixed cost per unit.

Use the following to answer Questions 4–5.

The following information has been provided by Evans Retail Stores Inc. for the first quarter of the year.

Sales $350,000

Variable selling expenses 35,000

Fixed selling expenses 25,000

Cost of goods sold (variable) 160,000

Fixed administrative expenses 55,000

Variable administrative expenses 15,000

4. The gross margin of Evans Retail Stores Inc. for the first quarter is

A) $210,000.

B) $140,000.

C) $220,000.

D) $190,000.

5. The contribution margin of Evans Retail Stores Inc. for the first quarter is

A) $300,000.

B) $140,000.

C) $210,000.

D) $190,000.

6. The total contribution margin decreases if sales volume remains the same and

A) fixed expenses increase.

B) fixed expenses decrease.

C) variable expense per unit increases.

D) variable expense per unit decreases.

7. A company has provided the following data:

Sales 3,000 units

Sales price $70 per unit

Variable cost $50 per unit

Fixed cost $25,000

If the sales volume decreases by 25%, the variable cost per unit increases by 15%, and all other factors remain the same, then net operating income will

A) decrease by $31,875.

B) decrease by $15,000.

C) increase by $20,625.

D) decrease by $3,125.

8. Wallace Inc. prepared the following budgeted data based on a sales forecast of $6,000,000.

Variable Fixed

Direct materials $1,600,000

Direct labor 1,400,000

Factory overhead 600,000 $ 900,000

Selling expenses 240,000 360,000

Administrative expenses 60,000 140,000

Total $3,900,000 $1,400,000

What would be the amount of sales dollars at the break-even point?

A) $2,250,000

B) $3,500,000

C) $4,000,000

D) $5,300,000

9. The following information pertains to Rica Company.

Sales (50,000 units) $1,000,000

Manufacturing costs:

Variable 340,000

Fixed 70,000

Selling and admin. expenses:

Variable 10,000

Fixed 60,000

How much is Rica's break-even point in number of units?

A) 9,848

B) 10,000

C) 18,571

D) 26,000

Use the following to answer Questions 10–11.

Dorian Company produces and sells a single product. The product sells for $60 per unit and has a contribution margin ratio of 40%. The company's monthly fixed expenses are $28,800.

10. The variable expense per unit is

A) $31.20.

B) $24.00.

C) $36.00.

D) $28.80.

11. The break-even point in sales dollars is

A) $48,000.

B) $72,000.

C) $28,800.

D) $0.

12. An allocated portion of fixed manufacturing overhead is included in product costs under which of the following?

Absorption Variable

Costing costing

A) No No

B) No Yes

C) Yes No

D) Yes Yes

Use the following to answer Questions 13–16.

Farron Company, which has only one product, has provided the following data concerning its most recent month of operations.

Selling price $92

Units in beginning inventory 0

Units produced 8,700

Units sold 8,300

Units in ending inventory 400

Variable costs per unit:

Direct materials $13

Direct labor 55

Variable manufacturing overhead 1

Variable selling and administrative 5

Fixed costs:

Fixed manufacturing overhead $130,500

Fixed selling and administrative 8,300

13. What is the unit product cost for the month under variable costing?

A) $69

B) $84

C) $89

D) $74

14. What is the unit product cost for the month under absorption costing?

A) $74

B) $89

C) $69

D) $84

15. What is the net income for the month under variable costing?

A) $10,600

B) ($17,000)

C) $16,600

D) $6,000

16. What is the net income for the month under absorption costing?

A) ($17,000)

B) $16,600

C) $6,000

D) $10,600

17. Orion Corporation is preparing a cash budget for the 6 months beginning January 1. Shown below are the company's expected collection pattern and the budgeted sales for the period. All sales are deemed to be collectible.

Expected collection pattern:

65% collected in the month of sale

20% collected in the month after sale

10% collected in the second month after sale

4% collected in the third month after sale

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Budgeted sales:

January $160,000

February 185,000

March 190,000

April 170,000

May 200,000

June 180,000

The estimated total cash collections during April from sales and accounts receivables would be

A) $155,900.

B) $167,000.

C) $171,666.

D) $173,400.

18. Avril Company makes collections on sales according to the following schedule.

30% in the month of sale

60% in the month following sale

8% in the second month following sale

All sales are deemed to be collectible

The following sales are expected.

Expected Sales

January $100,000

February 120,000

March 110,000

Cash collections in March should be budgeted to be

A) $110,000.

B) $110,800.

C) $105,000.

D) $113,000.

19. A labor efficiency variance resulting from the use of poor-quality materials should be charged to

A) the production manager.

B) the purchasing agent.

C) manufacturing overhead.

D) the marketing department.

20. An unfavorable labor efficiency variance indicates that

A) the actual labor rate was higher than the standard labor rate.

B) the labor rate variance must also be unfavorable.

C) actual labor hours worked exceeded standard labor hours for the production level achieved.

D) overtime labor was used during the period.

21. A favorable labor rate variance indicates that

A) actual hours exceed standard hours.

B) standard hours exceed actual hours.

C) the actual rate exceeds the standard rate.

D) the standard rate exceeds the actual rate.

Use the following to answer Questions 22-23.

The following selected data pertain to Beck Co.'s Beam Division for last year.

Sales $400,000

Variable expenses $100,000

Traceable fixed expenses $250,000

Average operating assets $200,000

Minimum required rate of return 20%

22. How much is the residual income?

A) $40,000

B) $50,000

C) $10,000

D) $80,000

23. How much is the return on investment?

A) 25%

B) 20%

C) 12.5%

D) 40%

24. One of the dangers of allocating common fixed costs to a product line is that such allocations can make the line appear less profitable than it really is.

A) True

B) False

25. In responsibility accounting, each segment in an organization should be charged with the costs for which it is responsible and over which it has control, plus its share of common organizational costs.

A) True

B) False

26. Some managers believe that residual income is superior to return on investment as a means of measuring performance, because it encourages the manager to make investment decisions that are more consistent with the interests of the company as a whole.

A) True

B) False

27. The performance of the manager of Division A is measured by residual income. Which of the following would increase the manager's performance measure?

A) Increase in average operating assets

B) Decrease in average operating assets

C) Increase in minimum required return

D) Decrease in net operating income

28. The Northern Division of the Smith Company had average operating assets totaling $150,000 last year. If the minimum required rate of return is 12% and last year's net operating income at Northern was $20,000, then the residual income for Northern last year was

A) $20,000.

B) $l8,000.

C) $5,000.

D) $2,000.

Use the following to answer Questions 29–30.

The following information is available on Company A.

Sales $900,000

Net operating income 36,000

Stockholders' equity 100,000

Average operating assets 180,000

Minimum required rate of return 15%

29. Company A's residual income is

A) $9,000.

B) $21,000.

C) $45,000.

D) $24,000.

30. Company A's return on investment (ROI) is

A) 4%.

B) 15%.

C) 20%.

D) 36%.

31. Gata Co. plans to discontinue a department that has a $48,000 contribution margin and $96,000 of fixed costs. Of these fixed costs, $42,000 cannot be avoided. What would be the effect of this discontinuance on Gata's overall net operating income?

A) Increase of $48,000

B) Decrease of $48,000

C) Increase of $6,000

D) Decrease of $6,000

32. Pitkin Company produces a part used in the manufacture of one of its products. The unit product cost of the part is $33, computed as follows.

Direct materials $12

Direct labor 8

Variable manufacturing overhead 3

Fixed manufacturing overhead . 10

Unit product cost $33

An outside supplier has offered to provide the annual requirement of 10,000 of the parts for only $27 each. The company estimates that 30% of the fixed manufacturing overhead costs above will continue if the parts are purchased from the outside supplier. Assume that direct labor is an avoidable cost in this decision. Based on these data, the per-unit dollar advantage or disadvantage of purchasing the parts from the outside supplier would be a

A) $3 advantage.

B) $1 advantage.

C) $1 disadvantage.

D) $4 disadvantage.

33. Some investment projects require that a company expand its working capital to service the greater volume of business that will be generated. Under the net present value method, the investment of working capital should be treated as

A) an initial cash outflow for which no discounting is necessary.

B) a future cash inflow for which discounting is necessary.

C) both an initial cash outflow for which no discounting is necessary and a future cash inflow for which discounting is necessary.

D) irrelevant to the net present value analysis.

34. Which of the following capital budgeting techniques consider(s) cash flow over the entire life of the project?

Internal rate of return Payback

A) Yes Yes

B) Yes No

C) No Yes

D) No No

Use the following to answer Question 35

(Ignore income taxes in this problem.) Treads Corporation is considering the replacement of an old machine that is currently being used. The old machine is fully depreciated but can be used by the corporation for five more years. If Treads decides to replace the old machine, Picco Company has offered to purchase the old machine for $60,000. The old machine would have no salvage value in 5 years.

The new machine would be acquired from Hillcrest Industries for $1,000,000 in cash. The new machine has an expected useful life of 5 years with no salvage value. Due to the increased efficiency of the new machine, estimated annual cash savings of $300,000 would be generated.

Treads Corporation uses a discount rate of 12%.

35. The net present value of the project is closest to

A) $171,000.

B) $136,400.

C) $141,500.

D) $560,000.

Use the following to answer Questions 36–37.

(Ignore income taxes in this problem.) Oriental Company has gathered the following data on a proposed investment project.

Investment in depreciable equipment $200,000

Annual net cash flows $ 50,000

Life of the equipment 10 years

Salvage value 0

Discount rate 10%

The company uses straight-line depreciation on all equipment.

36. The payback period for the investment would be

A) 2.41 years.

B) 0.25 years.

C) 10 years.

D) 4 years.

37. The net present value of this investment would be

A) ($14,350).

B) $107,250.

C) $77,200.

D) $200,000.

38. The Tse Manufacturing Company uses a job-order costing system and applies overhead to jobs using a predetermined overhead rate. The company closes any balance in the Manufacturing Overhead account to Cost of Goods Sold. During the year, the company's Finished Goods inventory account was debited for $125,000 and credited for $110,000. The ending balance in the Finished Goods inventory account was $28,000. At the end of the year, manufacturing overhead was overapplied by $4,500. The balance in the Finished Goods inventory account at the beginning of the year was  
A. $28,000.  
B. $13,000.  
C. $17,500.  
D. $8,500.

39. Matthias Corporation has provided data concerning the company's Manufacturing Overhead account for the month of May. Prior to the closing of the overapplied or underapplied balance to Cost of Goods Sold, the total of the debits to the Manufacturing Overhead account was $53,000 and the total of the credits to the account was $69,000. Which of the following statements is true?   
A. Manufacturing overhead applied to Work in Process for the month was $69,000.  
B. Manufacturing overhead for the month was underapplied by $16,000.  
C. Manufacturing overhead transferred from Finished Goods to Cost of Goods Sold during the month was $53,000.  
D. Actual manufacturing overhead incurred during the month was $69,000.

40. Yoder Company uses the weighted-average method in its process costing system. The following data pertain to operations in the first processing department for a recent month.  
  
  
 

40. What was the cost per equivalent unit for materials during the month?   
A. $0.30  
B. $0.25  
C. $0.20  
D. $0.15