Accounting 2122
Final Review Test
19. Which of the following would be appropriate for a process costing system?
   A. A custom yacht builder.
   B. A golf course designer.
   C. A potato chip manufacturer.
   D. A business consultant.

20. Which of the following industries is most likely to employ a job-order-costing system?
   A. Dog collar manufacturer.
   B. Stuffed toy manufacturer.
   C. Customer-designed home builder.
   D. Soft-drink producer.

21. When completed jobs are transferred out of work in process inventory account, which of the following accounts is increased?
   A. Materials Inventory
   B. Work in Process Inventory
   C. Finished Goods Inventory
   D. Manufacturing Overhead

USE THE FOLLOWING TO ANSWER QUESTIONS 22 AND 23:

The management of Casablanca Manufacturing Corporation believes that machine-hours are an appropriate measure of activity for overhead cost. Shown below are machine-hours and total overhead costs for the past six months:

<table>
<thead>
<tr>
<th>Month</th>
<th>Machine-Hours</th>
<th>Overhead Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>15,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>August</td>
<td>14,000</td>
<td>$85,000</td>
</tr>
<tr>
<td>September</td>
<td>16,000</td>
<td>$94,000</td>
</tr>
<tr>
<td>October</td>
<td>13,000</td>
<td>$81,000</td>
</tr>
<tr>
<td>November</td>
<td>17,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>December</td>
<td>20,000</td>
<td>$123,000</td>
</tr>
</tbody>
</table>

Assume that the relevant range includes all of the activity levels mentioned in this problem.

22. Using the high-low method, what is Casablanca’s estimated variable overhead cost per machine hour?
   A) $6.00
   B) $5.50
   C) $6.20
   D) $3.50

23. Using the high-low method, what is Casablanca’s estimated total fixed overhead cost?
   A) $2,000
   B) $3,000
   C) $4,000
   D) $3,500
The total cost of Job Number 106 is
A. $23,000
B. $32,800
C. $68,000
D. $42,000

33. Precision Company used a predetermined overhead rate last year of $3 per direct labor hour. Actual costs and activity during the year were:

Actual manufacturing overhead cost incurred ........................................... $84,000
Actual direct labor hours worked ............................................................ 27,000

The under- or overapplied overhead for the year was:
A. $3,000 underapplied.
B. $3,000 overapplied.
C. $12,000 underapplied.
D. $12,000 overapplied.

THE FOLLOWING DATA APPLY TO ITEMS 34-39:

Welton Manufacturing Company prepares its monthly income statements on the basis of ACTUAL costs for the period. The company's accounting records show the following operating results for the month ending May 31, 2XXX:

Sales........................................................................................................... $500,000
Purchases of direct materials................................................................. 95,000
Direct manufacturing labor ................................................................. 180,000
Indirect manufacturing labor ............................................................. 15,000
Factory supplies..................................................................................... 2,000
Factory heat, light and power ............................................................... 6,000
Depreciation - plant building .............................................................. 10,000
Depreciation - plant equipment ......................................................... 40,000
Miscellaneous factory overhead......................................................... 1,000
Marketing and administrative costs.................................................. 100,000

Inventory data

<table>
<thead>
<tr>
<th></th>
<th>May 1</th>
<th>May 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$8,000</td>
<td>$13,000</td>
</tr>
<tr>
<td>Work-in-process</td>
<td>7,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>18,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

The company uses a pre-determined overhead rate to apply overhead cost to jobs. The rate for the year was $10 per machine hours; a total of 7,500 machine hours was recorded during the month.
The amount of direct materials used during the month is
A. $90,000  
B. $95,000  
C. $100,000  
D. $105,000

Total actual indirect manufacturing (factory overhead) costs incurred during the month is
A. $52,000  
B. $13,500  
C. $63,000  
D. $74,000

The amount of NORMAL cost of goods manufactured during the month are
A. $362,000  
B. $343,000  
C. $180,000  
D. $350,000

For the month, factory overhead cost was
A. Under-applied by $2,000.  
B. Under-applied by $1,000.  
C. Over-applied by $2,000.  
D. Over-applied by $1,000.

The amount of cost of goods sold after adjusting for over- or under-applied overhead is
A. $350,000  
B. $351,000  
C. $352,000  
D. $349,000

Welton’s operating income for the month is
A. $51,000  
B. $49,000  
C. $50,000  
D. $52,000
43. Manufacturing overhead is
   A. $160,000 over applied
   B. $170,000 under applied
   C. $10,000 under applied
   D. $10,000 over applied.

44. Under- or over-applied manufacturing overhead is closed to Cost of Goods Sold. What is the amount of cost of goods sold after the manufacturing overhead account has been closed?
   A. $270,000
   B. $280,000
   C. $290,000
   D. $300,000

45. The amount of gross profit (margin) after adjustment for any over- or under-applied manufacturing overhead was
   A. $270,000
   B. $120,000
   C. $170,000
   D. $50,000

QUESTIONS 46 THOUGH 49 ARE BASED ON THE FOLLOWING DATA:

Volunteers Company had the following income statement for the most recent year:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (15,000 units)</td>
<td>$150,000</td>
<td>$10</td>
</tr>
<tr>
<td>Less: Variable expenses</td>
<td>90,000</td>
<td>6</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>60,000</td>
<td>$4</td>
</tr>
<tr>
<td>Less: Fixed expenses</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$10,000</td>
<td></td>
</tr>
</tbody>
</table>

46. What will be the operating income, if sales quantity increases by 15%?
   A. $19,000
   B. $11,500
   C. $20,450
   D. $18,350

47. Refer to the original data, what will be the operating income (loss), if the selling price decreases by $3 and the sales volume increases by 50%?
   A. $22,500
   B. ($27,500)
   C. $29,750
   D. ($32,850)
**Caution:** The following questions were extracted from past exams. They are intended for you to become familiar with the types and formats of questions that you will be asked on the upcoming exam. Studying ONLY these sample questions will not adequately prepare you for the exam. You should also review notes, homework problems, and other materials that your instructor provided you.

**QUESTIONS 1 THROUGH 4 ARE BASED ON THE FOLLOWING INFORMATION:**

Volunteers Company had the following income statement for the most recent year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (15,000 units)</td>
<td>$150,000</td>
<td>$10</td>
</tr>
<tr>
<td>Less: Variable expenses</td>
<td>90,000</td>
<td>6</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>60,000</td>
<td>$4</td>
</tr>
<tr>
<td>Less: Fixed expenses</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$10,000</td>
<td></td>
</tr>
</tbody>
</table>

1. What will be the operating income, if sales volume increases by 15%?
   A. $19,000
   B. $11,500
   C. $20,450
   D. $18,350

2. Refer to the original data, what will be the operating income (loss), if the selling price decreases by $3 and the sales volume increases by 50%?
   A. $22,500
   B. $(27,500)
   C. $29,750
   D. $(32,850)

3. Refer to the original data, volunteers’ breakeven point in units is
   A. 18,000
   B. 4,400
   C. 11,000
   D. 12,500

4. Refer to the original data, how many units of the product must be sold for Volunteers to realize an operating income of $30,000?
   A. 19,000
   B. 20,000
   C. 22,000
   D. 23,000

5. The Bulldogs Company has the following sales projection for November:
   - Projected sales for the month $1,000,000
   - Project sales at breakeven point $800,000

What is Bulldogs’ margin of safety, expressed as a percentage, for November?
   A. 30%
   B. 80%
   C. 20%
   D. 100%
QUESTIONS 11 AND 12 ARE BASED ON THE FOLLOWING INFORMATION:

Gamecocks Store, a retailer, has the following data relating to the month of October:

Sales price .................................................. $500,000
Cost of goods sold (all variable) ................................... 200,000
Variable selling expense ........................................... 50,000
Fixed selling and administrative expense .................... 100,000

11. Gamecocks' gross profit for the month is
   A. $250,000
   B. $150,000
   C. $300,000
   D. $180,000

12. Gamecocks' contribution margin for the month is
   A. $250,000.
   B. $150,000
   C. $300,000.
   D. $180,000.

QUESTIONS 13 AND 14 ARE BASED ON THE FOLLOWING INFORMATION:

Gamecocks Store, a retailer, has the following data relating to the month of October:

Sales .................................................. $500,000  100%
Total variable costs ........................................... 300,000  60%
Contribution margin ........................................... 200,000  40%
Fixed selling and administrative expense ................. 100,000
Operating income ........................................... 100,000

13. What is the amount of sales that Gamecocks will have to achieve at the break-even point?
   A. $500,000
   B. $300,000
   C. $250,000
   D. $180,000

14. What is the amount of sales that Gamecocks will have to achieve to realize a target net income of $90,000?
   A. $475,000.
   B. $725,000
   C. $300,000.
   D. $190,000.
Drake Company's contribution format income statement for the most recent year appears below:

Sales (26,000 units)............. $650,000
Variable expenses............. 442,000
Contribution margin............. 208,000
Fixed expenses............. 234,000
Net operating loss............. $(26,000)

The sales manager is convinced that a $60,000 expenditure on advertising will increase unit sales by 50% without any other increase in fixed expenses. If the sales manager is correct, the company's net operating income would increase by:
A. $44,000
B. $34,000
C. $30,000
D. $49,000

QUESTIONS 16 AND 17 ARE BASED ON THE FOLLOWING DATA:

Lagasca Corporation's contribution format income statement for December appears below:

Sales................................. $342,000
Variable expenses............. 190,000
Contribution margin............. 152,000
Fixed expenses............. 119,600
Net operating income............. $32,400

16. The degree of operating leverage for Lagasca is closest to:
A. 10.56
B. 0.21
C. 4.69
D. 0.09

17. The margin of safety in dollars for Lagasca is closest to:
A. $126,720
B. $72,900
C. $32,400
D. $190,000

18. An example of a common cost that should not be assigned to a particular product on a segmented income statement is:
A. the product's advertising costs.
B. the salary of the corporation president.
C. direct materials costs.
D. the product manager's salary.
QUESTIONS 19 AND 20 ARE BASED ON THE FOLLOWING DATA:

Tennison Corporation has two major business segments—Consumer and Commercial. Data for the segment and for the company for May appear below:

Sales revenues, Consumer.............................. $970,000
Sales revenues, Commercial.......................... $580,000
Variable expenses, Consumer...................... $514,000
Variable expenses, Commercial................... $267,000
Traceable fixed expenses, Consumer.............. $184,000
Traceable fixed expenses, Commercial.......... $110,000

In addition, common fixed expenses totaled $371,000 and were allocated by Tennison’s accountant as follows: $186,000 to the Consumer business segment and $185,000 to the Commercial business segment.

19. A properly constructed segmented income statement in a contribution format would show that the segment margin of the Consumer business segment is:
   A. $272,000
   B. $270,000
   C. $86,000
   D. $514,000

20. A properly constructed segmented income statement in a contribution format would show that the net operating income of the company as a whole is:
   A. $769,000
   B. $104,000
   C. $475,000
   D. -$267,000

QUESTIONS 21 THROUGH 23 ARE BASED ON THE FOLLOWING DATA:

Falquez Company sells three products: R, S, and T. Data for activity of Falquez Company during July are as follows:

<table>
<thead>
<tr>
<th>Products</th>
<th>Total</th>
<th>R</th>
<th>S</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$800,000</td>
<td>$150,000</td>
<td>?</td>
<td>$200,000</td>
</tr>
<tr>
<td>Contribution margin ratio</td>
<td>32%</td>
<td>?</td>
<td>25%</td>
<td>40%</td>
</tr>
<tr>
<td>Traceable fixed expenses</td>
<td>$120,000</td>
<td>$25,000</td>
<td>$60,000</td>
<td>?</td>
</tr>
</tbody>
</table>

Common fixed expenses for July amounted to $90,000.

21. Net operating income for the company was:
   A. $166,000
   B. $256,000
   C. $334,000
   D. $46,000
22. The contribution margin for Product R was:
   A. $48,750
   B. $63,500
   C. $51,000
   D. $48,000

23. The segment margin for Product T was:
   A. $45,000
   B. $85,000
   C. $(10,000)
   D. $80,000

24. The ARB Company has two divisions: Electronics and DVD/Video Sales. Electronics has traceable fixed expenses of $146,280 and the DVD/Video Sales has traceable fixed expenses of $81,765. If ARB Company has a total of $322,490 in fixed expenses, what are its common fixed expenses?
   A. $94,445
   B. $322,490
   C. $228,045
   D. $47,223

25. A “bucket” in which costs are accumulated that relate to a single activity measure in the activity-based costing system is commonly known as:
   A. An activity measure.
   B. An activity cost pool.
   C. A cost driver.
   D. A duration driver.

26. Which of the following is NOT a limitation of activity-based costing?
   A. Maintaining an activity-based costing system is more costly than maintaining a traditional direct labor-based costing system.
   B. Changing from a traditional direct labor-based costing system to an activity-based costing system changes product margins and other key performance indicators used by managers. Such changes are often resisted by managers.
   C. ABC data can easily be misinterpreted and must be used with care when used in making decisions.
   D. Activity-based management (ABM) can be used in conjunction with ABC to improve processes and reduce costs.
Tadlock Corporation has provided the following data concerning its overhead costs for the coming year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>$440,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>120,000</td>
</tr>
<tr>
<td>Rent</td>
<td>160,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$720,000</strong></td>
</tr>
</tbody>
</table>

The company has an activity-based costing system with the following three activity cost pools and estimated activity for the coming year:

<table>
<thead>
<tr>
<th>Activity Cost Pool</th>
<th>Total Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly</td>
<td>40,000 labor-hours</td>
</tr>
<tr>
<td>Order processing</td>
<td>600 orders</td>
</tr>
<tr>
<td>Other</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

The Other activity cost pool does not have a measure of activity; it is used to accumulate costs of idle capacity and organization-sustaining costs.

The distribution of resource consumption across activity cost pools is given below:

<table>
<thead>
<tr>
<th>Activity Cost Pools</th>
<th>Assembly</th>
<th>Order Processing</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>40%</td>
<td>35%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Rent</td>
<td>10%</td>
<td>65%</td>
<td>25%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The activity rate for the Order Processing activity cost pool is closest to:

A. $420 per order
B. $520 per order
C. $490 per order
D. $780 per order

Spendlove Corporation has provided the following data from its activity-based costing system:

<table>
<thead>
<tr>
<th>Activity Cost Pool</th>
<th>Total Cost</th>
<th>Total Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly</td>
<td>$1,114,920</td>
<td>57,000 machine-hours</td>
</tr>
<tr>
<td>Processing orders</td>
<td>$47,016</td>
<td>1,800 orders</td>
</tr>
<tr>
<td>Inspection</td>
<td>$107,328</td>
<td>1,560 inspection-hours</td>
</tr>
</tbody>
</table>

The company makes 430 units of product S78N a year, requiring a total of 1,120 machine-hours, 40 orders, and 30 inspection-hours per year. The product's direct materials cost is $49.81 per unit and its direct labor cost is $12.34 per unit. The product sells for $129.90 per unit.

According to the activity-based costing system, the product margin for product S78N is:

A. $4,116.50
B. $29,132.50
C. $6,180.50
D. $5,161.30
41. A 12-month budget that rolls forward one month (or quarter) as the current month (or quarter) is completed is known as a
A. Zero-based budget.
B. Static budget.
C. Flexible budget.
D. Continuous budget.

42. In developing a comprehensive budget for a manufacturing company, which one of the following budgets should be done first?
A. Sales budget.
B. Production budget
C. Budgeted balance sheet.
D. Budgeted income statement.

43. The process that involves developing objectives and preparing various budgets to achieve those objectives is normally referred to as
A. The control process.
B. The feedback process.
C. The planning process.
D. The evaluation process.

QUESTIONS 44 AND 45 ARE BASED ON THE FOLLOWING PRODUCTION BUDGET FOR THE RAZORBACKS MANUFACTURING COMPANY:

The Razorbacks Manufacturing Company is planning its production for the next four months. The company has the following projected sales data:

November.......................................................... 70,000 units
December.......................................................... 60,000 units
January............................................................... 40,000 units
February ............................................................ 50,000 units

Inventory at the end of each month is equal to ten percent of the budgeted sales for the following month. On November 1, 7,000 units of inventory are expected to be on hand.

44. How many units does Razorbacks plan to produce in November?
A. 76,000 units.
B. 69,000 units.
C. 58,000 units.
D. 41,000 units.

45. What is the budgeted ending inventory for January?
A. 7,000 units.
B. 6,000 units.
C. 5,000 units.
D. 4,000 units.
QUESTIONS 49 AND 50 ARE BASED ON THE FOLLOWING INFORMATION ABOUT THE SOONERS COMPANY:

Sooners Company’s accountant is in the process of preparing the company’s budgeted financial statements for November and has collected the following data.

<table>
<thead>
<tr>
<th>Credit Sales</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>September - actual</td>
<td>$ 90,000</td>
</tr>
<tr>
<td>October - actual</td>
<td>100,000</td>
</tr>
<tr>
<td>November - budgeted</td>
<td>120,000</td>
</tr>
</tbody>
</table>

Prior experience has indicated that 70% of a month’s sales are collected in the month of sale, 20% in the month following sale, and the remaining 10% in the second month following sale.

49. What is the amount of the estimated collections from credit sales that can be expected during November?
   A. $120,000
   B. $110,000
   C. $113,000
   D. $90,000

50. What is the budgeted balance in accounts receivable at the end of November?
   A. $46,000
   B. $36,000
   C. $94,000
   D. $34,000

51. On November 1, the Trojans Company has a cash balance of $10,000. Budgeted selling and administrative expense for November totals $40,000, of which $20,000 is depreciation expense on office equipment. During November, Trojans plans to purchase a $25,000 truck for cash and to borrow $35,000 from a local bank. Cash receipts from sales are expected to be $200,000. Total cash disbursements for merchandise are expected to be $180,000. What is the amount of expected cash balance at November 30?
   A. $33,000
   B. $20,000
   C. $0
   D. $10,000.
4. If Barrick Company plans to operate at 190,000 direct labor-hours during the next period, the flexible budget would show total costs of:
   A) $171,000.
   B) $460,000.
   C) $445,000.
   D) $270,000.

QUESTIONS 5 THROUGH 8 ARE BASED ON THE FOLLOWING INFORMATION.

Kuczanski Corporation's cost formula for its manufacturing overhead is $45,700 per month plus $53 per machine-hour. For the month of March, the company planned for activity of 6,200 machine-hours, but the actual level of activity was 6,150 machine-hours. The actual manufacturing overhead for the month was $373,630.

5. The manufacturing overhead in the planning budget for March would be closest to:
   A. $373,630
   B. $371,650
   C. $376,668
   D. $374,300

6. The manufacturing overhead in the flexible budget for March would be closest to:
   A. $371,650
   B. $371,281
   C. $373,630
   D. $374,300

7. The activity variance for manufacturing overhead in March would be closest to:
   A. $670 U
   B. $670 F
   C. $2,650 F
   D. $2,650 U

8. The spending variance for manufacturing overhead in March would be closest to:
   A. $670 F
   B. $1,980 U
   C. $1,980 F
   D. $670 U

9. Standards that are "tight but attainable" and that should be used for planning and forecasting are referred to as
   A) normal standards.
   B) practical standards.
   C) ideal standards.
   D) budgeted standards.
QUESTIONS 10 THROUGH 17 ARE BASED ON THE FOLLOWING INFORMATION:

Cox Engineering performs cement core tests in its laboratory. The following standards have been set for each core test performed:

- Direct materials, 3 pounds @ $0.75 per pound.
- Direct labor, 0.4 hours @ $12.00 per hour.
- Variable factory overhead, 0.4 hours @ $4.00 per hour.
- Fixed factory overhead, 0.4 hours @ $10.00 per hour.

Manufacturing overhead is assigned to core tests on the basis of direct labor hours. Budgeted fixed manufacturing overhead for the period was $8,000. The denominator activity used for determining the overhead rates was 2,000 core tests or 800 direct labor hours.

On March 1 no direct materials (sand) were on hand. The following events occurred during March:

- 8,600 pounds of sand were purchased at a cost of $7,310.
- 7,200 pounds of sand were used for core tests.
- 840 actual direct labor hours were worked at a cost of $8,610.
- Actual variable manufacturing overhead incurred was $3,200.
- Actual fixed manufacturing overhead incurred was $8,100.
- The company actually performed 2,000 core tests during the month.

10. The materials price variance computed on the basis of the quantity purchased for March is:
   A) $860 unfavorable.
   B) $860 favorable.
   C) $281 unfavorable.
   D) $281 favorable.

11. The materials quantity (efficiency) variance for March is:
   A) $900 favorable.
   B) $1,950 favorable.
   C) $1,950 unfavorable.
   D) $900 unfavorable.

12. The labor rate variance for March is:
   A) $4,578 unfavorable.
   B) $1,470 unfavorable.
   C) $4,578 favorable.
   D) $1,470 favorable.

13. The labor efficiency variance for March is:
   A) $480 favorable.
   B) $480 unfavorable.
   C) $192 favorable.
   D) $192 unfavorable.
14. The variable overhead rate variance for March is:
   A) $320 unfavorable.
   B) $320 favorable.
   C) $160 unfavorable.
   D) $160 favorable.

15. The variable overhead efficiency variance for March is:
   A) $320 unfavorable.
   B) $320 favorable.
   C) $160 unfavorable.
   D) $160 favorable.

16. The fixed overhead volume variance for March is:
   A) $400 favorable.
   B) $400 unfavorable.
   C) $100 unfavorable.
   D) $0

17. The fixed overhead budget variance for March is:
   A) $300 favorable.
   B) $300 unfavorable.
   C) $100 unfavorable.
   D) $100 favorable.

18. An unfavorable material price variance coupled with a favorable material usage (efficiency) variance would MOST likely result from:
   A) problems with processing machines.
   B) the purchase and use of high quality materials.
   C) problems with labor efficiency.
   D) changes in the product mix.

19. Which of the following is the most probable reason a company would experience an unfavorable labor rate variance and a favorable labor efficiency variance?
   A) The mix of workers assigned to the particular job was heavily weighted towards the use of higher paid, experienced individuals.
   B) The mix of workers assigned to the particular job was heavily weighted towards the use of new relatively low paid, unskilled workers.
   C) Because of the production schedule, workers from other production areas were assigned to assist this particular process.
   D) Defective materials caused more labor to be used in order to produce a standard unit.
Which department is usually held responsible for an unfavorable materials quantity (efficiency) variance?
A) Marketing
B) Purchasing
C) Engineering
D) Production

Under a standard cost system, the material price variances are usually the responsibility of the:
A) Production manager.
B) Sales manager.
C) Purchasing manager.
D) Engineering manager.

Which of the following will not result in an increase in the residual income, assuming other factors remain constant?
A. An increase in sales.
B. An increase in the minimum required rate of return.
C. A decrease in expenses.
D. A decrease in operating assets.

Beall Industries is a division of a major corporation. Last year the division had total sales of $20,160,000, net operating income of $1,592,640, and average operating assets of $8,000,000. The division's margin is closest to:
A. 39.7%
B. 47.6%
C. 7.9%
D. 19.9%

Using the information from question 23, above. The division's return on investment (ROI) is closest to:
A. 19.9%
B. 16.6%
C. 1.6%
D. 5.7%

Questions 25 – 27 are based on the following information:
Estes Company has assembled the following data for its divisions for the past year:

<table>
<thead>
<tr>
<th></th>
<th>Division A</th>
<th>Division B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average operating assets</td>
<td>$500,000</td>
<td>?</td>
</tr>
<tr>
<td>Sales</td>
<td>?</td>
<td>$20,000</td>
</tr>
<tr>
<td>Net operating income</td>
<td>$100,000</td>
<td>$20,300</td>
</tr>
<tr>
<td>Turnover</td>
<td>1.25</td>
<td>4</td>
</tr>
<tr>
<td>Margin</td>
<td>?</td>
<td>3.9%</td>
</tr>
<tr>
<td>Minimum required rate of return</td>
<td>14%</td>
<td>?</td>
</tr>
<tr>
<td>Residual income</td>
<td>?</td>
<td>$6,000</td>
</tr>
</tbody>
</table>
25. Division A's sales are:
   A. $400,000
   B. $625,000
   C. $125,000
   D. $200,000

26. Division A's residual income is:
   A. $20,000
   B. $30,000
   C. $35,000
   D. $45,000

27. Division B's average operating assets equal:
   A. $81,200
   B. $2,080,000
   C. $1,333,333
   D. $130,000

28. Soderquist Corporation uses residual income to evaluate the performance of its divisions. The company's minimum required rate of return is 11%. In April, the Commercial Products Division had average operating assets of $100,000 and net operating income of $9,400. What was the Commercial Products Division's residual income in April?
   A. -$1,600
   B. $1,600
   C. $1,034
   D. -$1,034

29. The following data pertain to an investment:

   Cost of the investment .................. $18,955
   Life of the project ..................... 5 years
   Annual cost savings .................... $5,000
   Estimated salvage value ............... $1,000
   Discount rate .......................... 10%

   The net present value of the proposed investment is:
   A. $3,355
   B. $(3,430)
   C. $0
   D. $621
ACCT2122
SAMPLE QUESTIONS – Chapter 12

Caution: The following questions were extracted from past exams. They are intended for you to become familiar with the types and formats of questions from Chapter 12 that will be covered on the upcoming exam. Studying ONLY these sample questions will NOT adequately prepare you for the exam. The final exam is a comprehensive exam, including material from all Chapters covered during the semester.

1. A relevant cost is
   A) Same as a sunk cost.
   B) Different from an avoidable cost.
   C) Not the same as a differential cost.
   D) A cost that differs among alternatives in a particular decision.

2. Wenig Inc. has some material that originally cost $73,500. The material has a scrap value of $45,600 as is, but if reworked at a cost of $6,600, it could be sold for $58,100. What would be the incremental effect on the company's overall profit of reworking and selling the material rather than selling it as is as scrap?
   A) $22,000
   B) $67,600
   C) $51,500
   D) $5,900

3. Narciso Corporation obtains three products from a joint process. The company is considering processing some of these products beyond the split-off point and has gathered the following information from its accounting records:

<table>
<thead>
<tr>
<th>Joint Products</th>
<th>Total</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue at split off</td>
<td>$1,000,000</td>
<td>$500,000</td>
<td>$300,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Less: Allocated joint cost</td>
<td>600,000</td>
<td>300,000</td>
<td>180,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Gross profit at split off point</td>
<td>400,000</td>
<td>200,000</td>
<td>120,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>

   The company estimates that if the products are processed further beyond the split-off point, the following results will be obtained:

<table>
<thead>
<tr>
<th>Joint Products</th>
<th>Total</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales value after further processing</td>
<td>$1,500,000</td>
<td>$700,000</td>
<td>$500,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Additional processing costs</td>
<td>400,000</td>
<td>250,000</td>
<td>100,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

   In order for the company to maximize its gross profit, which of the following product or products should be processed further?
   A) A, B and C
   B) A and B only
   C) B and C only
   D) A and C only
4. Teich Inc. is considering whether to continue to make a component or to buy it from an outside supplier. The company uses 15,000 of the components each year. The unit product cost of the component is given as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$7.90</td>
</tr>
<tr>
<td>Direct labor</td>
<td>2.10</td>
</tr>
<tr>
<td>Variable manufacturing overhead</td>
<td>1.10</td>
</tr>
<tr>
<td>Fixed manufacturing overhead</td>
<td>4.00</td>
</tr>
<tr>
<td><strong>Unit product cost</strong></td>
<td><strong>$15.10</strong></td>
</tr>
</tbody>
</table>

Assume that direct labor is a variable cost. Of the fixed manufacturing overhead, 10% is avoidable if the component were bought from the outside supplier; the remainder is not avoidable. In addition, if the components are purchased the facilities that are being used to make the component can be leased to another company for $30,000 per year. When deciding whether to make or buy the component, what cost of making the component should be compared to the price of buying the component?

A) $13.50  
B) $11.50  
C) $16.10  
D) $15.10

5. The Kelsh Company has two divisions—North and South. The divisions have the following revenues and expenses:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>North</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,700,000</td>
<td>$900,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>750,000</td>
<td>450,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Traceable fixed expenses</td>
<td>470,000</td>
<td>260,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Allocated common corporate expenses</td>
<td>430,000</td>
<td>240,000</td>
<td>190,000</td>
</tr>
<tr>
<td>Net operating income (loss)</td>
<td>50,000</td>
<td>(50,000)</td>
<td>100,000</td>
</tr>
</tbody>
</table>

Management at Kelsh is pondering the elimination of North Division. If North Division were eliminated, its traceable fixed expenses could be avoided. The total common corporate expenses would be unaffected. Given these data, the elimination of North Division would result in an overall company net operating income (loss) of:

A) $100,000.  
B) $150,000.  
C) $(140,000).  
D) $50,000.

6. Barrus Company makes 30,000 motors to be used in the productions of its power lawn mowers. The manufacturing cost per motor at this level of activity is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$9.50</td>
</tr>
<tr>
<td>Direct labor</td>
<td>$8.60</td>
</tr>
<tr>
<td>Variable manufacturing overhead</td>
<td>$3.75</td>
</tr>
<tr>
<td>Fixed manufacturing overhead</td>
<td>$4.35</td>
</tr>
</tbody>
</table>

This motor has recently become available from an outside supplier for $25 per motor. If Barrus decides not to make the motors, none of the fixed manufacturing overhead would be avoidable and there would
USE THE FOLLOWING TO ANSWER QUESTIONS 9 AND 10.

The Lapley Company has 500 obsolete small tools that are carried in inventory at a total cost of $940,000. If these tools are upgraded at a total cost of $180,000, they can be sold for a total of $300,000. As an alternative, the tools can be sold in their present condition for $80,000.

9. The sunk cost in this situation is:
   A) $940,000.
   B) $180,000.
   C) $80,000.
   D) $300,000.

10. What is the net advantage or disadvantage to the company from upgrading the tools rather than selling them in their present condition?
   A) $120,000 advantage.
   B) $640,000 disadvantage.
   C) $40,000 advantage.
   D) $220,000 advantage.

11. Product R19N has been considered a drag on profits at Buzzco Corporation for some time and management is considering discontinuing the product altogether. Data from the company's accounting system appear below:

   Sales .......................................................... $270,000
   Variable expenses ........................................... $132,000
   Fixed manufacturing expenses ......................... $95,000
   Fixed selling and administrative expenses .......... $65,000

   In the company's accounting system all fixed expenses of the company are fully allocated to products. Further investigation has revealed that $49,000 of the fixed manufacturing expenses and $30,000 of the fixed selling and administrative expenses are avoidable if product R19N is discontinued. What would be the effect on the company's overall net operating income if product R19N were dropped?
   A) Overall net operating income would decrease by $59,000.
   B) Overall net operating income would decrease by $22,000.
   C) Overall net operating income would increase by $59,000.
   D) Overall net operating income would increase by $22,000.

12. An automated turning machine is the current constraint at Naik Corporation. Three products use this constrained resource. Data concerning those products appear below:

   Selling price per unit ............... KU $104.89 OP $528.09 YY $558.03
   Variable cost per unit ............... KU $82.11 OP $429.78 YY $420.08
   Minutes on the constraint .......... 1.70 8.70 8.90

   Rank the products in order of their current profitability from most profitable to least profitable. In other words, rank the products in the order in which they should be emphasized.
   A. OP, KU, YY
   B. YY, OP, KU
   C. KU, YY, OP
   D. YY, KU, OP