ACCT 2122
CHAPTERS 13-14 SAMPLE QUESTIONS (12/7/21)

The following questions were extracted from past exams. They are intended for you to become familiar with the types and the 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 read the textbook and review the Connect problems and other problems that were presented in class.

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. 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:

   Direct materials ............................................ $ 7.90
   Direct labor ...................................................... 2.10
   Variable manufacturing overhead .................. 1.10
   Fixed manufacturing overhead .................... 4.00
   Unit product cost ............................................ $15.10

   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

3. 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:

   Direct materials ............................................. $9.50
   Direct labor ................................................. $8.60
   Variable manufacturing overhead .......... $3.75
   Fixed manufacturing overhead .............. $4.35

   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 be no other use for the facilities. If Barrus decides to continue making the motor, the total cost of making the parts as compared to the total cost of buying them will be
A) $36,000 lower.
B) $207,000 higher.
C) $94,500 lower.
D) $130,500 higher.

4. A customer has requested that Inga Corporation fill a special order for 2,000 units of product K81 for $25.00 a unit. While the product would be modified slightly for the special order, product K81's normal unit product cost is $19.90:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$5.60</td>
</tr>
<tr>
<td>Direct labor</td>
<td>4.00</td>
</tr>
<tr>
<td>Variable manufacturing overhead</td>
<td>2.70</td>
</tr>
<tr>
<td>Fixed manufacturing overhead</td>
<td>7.60</td>
</tr>
<tr>
<td>Unit product cost</td>
<td>$19.90</td>
</tr>
</tbody>
</table>

Direct labor is a variable cost. The special order would have no effect on the company's total fixed manufacturing overhead costs. The customer would like modifications made to product K81 that would increase the variable costs by $1.20 per unit and that would require an investment of $10,000 in special molds that would have no salvage value.

This special order would have no effect on the company's other sales. The company has ample spare capacity for producing the special order. If the special order is accepted, the company's overall net operating income would increase (decrease) by:
A) $13,000
B) $(9,700)
C) $10,200
D) $(2,200)

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

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$270,000</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>$132,000</td>
</tr>
<tr>
<td>Fixed manufacturing expenses</td>
<td>$95,000</td>
</tr>
<tr>
<td>Fixed selling and administrative expenses</td>
<td>$65,000</td>
</tr>
</tbody>
</table>
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.

7. 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

8. Mcclam, Inc., is considering the purchase of a machine that would cost $100,000 and would last for 9 years. At the end of 9 years, the machine would have a salvage value of $23,000. The machine would reduce labor and other costs by $19,000 per year. Additional working capital of $2,000 would be needed immediately. All of this working capital would be recovered at the end of the life of the machine. The company requires a minimum pretax return of 13% on all investment projects. The net present value of the proposed project is closest to:
A. $3,833
B. $5,167
C. -$2,492
D. $11,514

9. A company with $800,000 in operating assets is considering the purchase of a machine that costs $75,000 and which is expected to reduce operating costs by $20,000 each year. The payback period for this machine in years is closest to:
A. 0.27 years
B. 10.7 years
C. 3.75 years
D. 40 years

10. The Keego Company is planning a $200,000 equipment investment which has an estimated five-year life with no estimated salvage value. The company has projected the following annual cash flows for the investment.
Assuming that the cash inflows occur evenly over the year, the payback period for the investment is:

A. 0.75 years  
B. 1.67 years  
C. 4.91 years  
D. 2.50 years

11. The management of Wiersema Corporation is investigating purchasing equipment that would increase sales revenues by $257,000 per year and cash operating expenses by $103,000 per year. The equipment would cost $430,000 and have a 5 year life with no salvage value. The simple rate of return on the investment is closest to:

A. 15.8%  
B. 20.0%  
C. 26.5%  
D. 35.8%

12. White Company's required rate of return on capital budgeting projects is 12%. The company is considering an investment opportunity which would yield a cash flow of $10,000 in five years. What is the most that the company should be willing to invest in this project?

A. $36,050  
B. $2,774  
C. $17,637  
D. $5,670

13. Charley has a typing service. He estimates that a new computer will result in increased cash inflow $1,600 in Year 1, $2,000 in Year 2 and $3,000 in Year 3. If Charley's required rate of return is 12%, the most that Charley would be willing to pay for the new computer would be:

A. $4,623  
B. $5,159  
C. $3,294  
D. $4,804

14. How much would you have to invest today in the bank at an interest rate of 13% to have an annuity of $3,900 per year for 5 years, with nothing left in the bank at the end of the 5 years? Select the amount below that is closest to your answer.

A. $19,500  
B. $17,257
C. $2,118  
D. $13,716

15. Logan Company is considering two projects, A and B. The following information has been gathered on these projects:

<table>
<thead>
<tr>
<th></th>
<th>Project A</th>
<th>Project B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment needed</td>
<td>$40,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Present value of future cash flows</td>
<td>$60,000</td>
<td>$85,000</td>
</tr>
<tr>
<td>Useful life</td>
<td>4 years</td>
<td>4 years</td>
</tr>
</tbody>
</table>

Based on this information, which of the following statements is (are) true?
I. Project A has the highest ranking according to the project profitability index criterion.  
II. Project B has the highest ranking according to the net present value criterion.
A. Only I  
B. Only II  
C. Both I and II  
D. Neither I nor II