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Accounting 225 Test #2 Preparation
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Chapter 5

1. Contribution margin equals revenue minus all variable costs.

2. The reluctance of managers to lay off employees when activity declines in the short-run leads to an increase in the ratio of variable to fixed costs.

3. Contribution margin and gross margin mean the same thing.

4. Committed fixed costs have a short-term planning horizon—usually one year.

5. A major problem with the high-low method of cost estimation is that some data are omitted from the analysis.

6. Contribution margin is computed as sales revenue minus:
 - a. fixed expenses
 - b. variable expenses
 - c. cost of goods sold
 - d. cost of goods manufactured

7. For an automobile manufacturer, the cost of a driver's side air bag purchased from a supplier and installed in every automobile would best be described as a:
 - a. fixed cost.
 - b. mixed cost.
 - c. step-variable cost.
 - d. variable cost.

8. In the standard cost formula $Y = a + bX$, what does the "a" represent?
 - a. total cost
 - b. total fixed cost
 - c. total variable cost
 - d. variable cost per unit

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9. In the standard cost formula $Y = a + bX$, what does the "b" represent?

- a. total cost
- b. total fixed cost
- c. total variable cost
- d. variable cost per unit

10. A is a fixed cost; B is a variable cost. During the current year the level of activity has decreased but is still within the relevant range. We would expect that:

- a. The cost per unit of A has remained unchanged.
- b. The cost per unit of B has decreased.
- c. The cost per unit of A has decreased.
- d. The cost per unit of B has remained unchanged.

11. The following costs are budgeted for Ghana Corporation for next year:

Total variable costs	\$350,000
Total fixed costs	<u>240,000</u>
Total costs	<u>\$590,000</u>

The costs above are based on a level of activity of 10,000 units. Assuming that this activity is within the relevant range, what would total costs be for Ghana if the level of activity was 12,000 units?

- a. \$590,000
- b. \$638,000
- c. \$660,000
- d. \$708,000

12. The management of Bushovisky Corporation, a manufacturing company, has provided the following financial data for January:

Sales	\$230,000
Variable production expense.....	\$31,000
Fixed production expense	\$47,000
Variable selling expense	\$19,000
Fixed selling expense	\$27,000
Variable administrative expense	\$26,000
Fixed administrative expense.....	\$65,000

The contribution margin for January was:

- a. \$15,000
- b. \$152,000
- c. \$91,000
- d. \$154,000

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Wilson Company's activity for the first six of the current year is as follows:

Month	Machine Hours	Electrical Cost
January	2,000	\$1,560
February	3,000	\$2,200
March	2,400	\$1,750
April	1,900	\$1,520
May	1,800	\$1,480
June	2,100	\$1,600

13. Using the high-low method, the variable cost per machine hour would be:
- a. \$0.67
 - b. \$0.64
 - c. \$0.40
 - d. \$0.60
14. Using the high-low method, the fixed portion of the electrical cost each month would be:
- a. \$400
 - b. \$760
 - c. \$280
 - d. \$190

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Chapter 6 Data

15. An increase in total fixed expenses will not affect the break-even point so long as the contribution margin ratio remains unchanged.

16. All other things the same, a reduction in the variable expense per unit will cause the break-even point to rise.

17. All other things the same, the margin of safety in dollars at a given level of sales will tend to be lower for a capital-intensive company than for a labor-intensive company with high variable expenses.

18. If the variable expense per unit increases, and all other factors remain constant, the contribution margin ratio will increase.

19. The formula for the break-even point is the same as the formula to attain a given target profit for the special case where the target profit is zero.

20. If both the fixed and variable expenses associated with a product decrease, what will be the effect on the contribution margin ratio and the break-even point, respectively? **6**

	Contribution margin ratio	Break-even point
a.	Decrease	Increase
b.	Increase	Decrease
c.	Decrease	Decrease
d.	Increase	Increase

21. At the break-even point:

- a. sales would be equal to contribution margin.
- b. contribution margin would be equal to fixed expenses.
- c. contribution margin would be equal to net operating income.
- d. sales would be equal to fixed expenses.

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22. Break-even analysis assumes that:
- a. Total revenue is constant.
 - b. Unit variable expense is constant.
 - c. Unit fixed expense is constant.
 - d. Selling prices must fall in order to generate more revenue.
23. Which of the following statements is correct with regard to a CVP graph?
- a. A CVP graph shows the maximum possible profit.
 - b. A CVP graph shows the break-even point as the intersection of the total sales revenue line and the total expense line.
 - c. A CVP graph assumes that total expense varies in direct proportion to unit sales.
 - d. A CVP graph shows the operating leverage as the gap between total sales revenue and total expense at the actual level of sales.
24. Escareno Corporation has provided its contribution format income statement for June. The company produces and sells a single product.

Sales (8,400 units).....	\$764,400
Variable expenses	<u>445,200</u>
Contribution margin.....	319,200
Fixed expenses	<u>250,900</u>
Net operating income	<u>\$ 68,300</u>

- If the company sells 8,200 units, its total contribution margin should be closest to:
- a. \$301,000
 - b. \$311,600
 - c. \$319,200
 - d. \$66,674

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The following data relate to a company that produces and sells a travel guide that is updated monthly:

Fixed costs:

Copy editing.....	\$6,000
Art work.....	\$2,000
Typesetting.....	\$72,000

Variable costs:

Printing and binding.....	\$3.20 per copy
Bookstore discounts	\$4.00 per copy
Salespersons' commissions.....	\$0.50 per copy
Author's royalties.....	\$2.00 per copy

Each book sells for \$20.00. The company sold 8,000 books in June and 10,000 books in July.

25. The unit contribution margin per book is:

- a. \$10.30
- b. \$14.30
- c. \$10.80
- d. \$8.30

26. The contribution margin ratio for the book is:

- a. 71.5%
- b. 54.0%
- c. 51.5%
- d. 51.9%

27. The break-even point in units is:

- a. 8,247 books
- b. 7,767 books
- c. 7,407 books
- d. 6,504 books

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Chapter 7

28. The usual starting point in budgeting is to make a forecast of net income.
29. A budget committee helps provide consistency in the budgeting process because it prepares all of the budgets for the various segments of the organization.
30. Cash collections in a schedule of cash collections typically consist of collections on sales made to customers in prior periods plus collections on sales made in the current budget period.
31. The selling and administrative expense budget lists the budgeted expenses for areas other than manufacturing.
32. Which of the following benefits could an organization reasonably expect from an effective budget program?
- a. Better control of the organization's costs.
 - b. Better coordination of an organization's activities.
 - c. Better communication of the organization's objectives.
 - d. All of these.
33. The usual starting point for a master budget is:
- a. the direct materials purchase budget.
 - b. the budgeted income statement.
 - c. the sales forecast or sales budget.
 - d. the production budget.
35. A basic idea underlying _____ is that a manager should be held responsible only for those items that the manager can actually control to a significant extent.
- a. participative budgeting
 - b. planning and control
 - c. responsibility accounting
 - d. the master budget

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36. Pitkins Company collects 20% of a month's sales in the month of sale, 70% in the month following sale, and 6% in the second month following sale. The remainder is uncollectible. Budgeted sales for the next four months are:

	January	February	March	April
Budgeted sales.....	\$200,000	\$300,000	\$350,000	\$250,000

Cash collections in April are budgeted to be:

- a. \$321,000
- b. \$313,000
- c. \$320,000
- d. \$292,000

37. Betz Company's sales budget shows the following projections for next year:

	Sales in units
First Quarter	60,000
Second Quarter.....	80,000
Third Quarter.....	45,000
Fourth Quarter.....	55,000

Inventory at the beginning of the year was 18,000 units. The finished goods inventory at the end of each quarter is to equal 30% of the next quarter's budgeted unit sales. How many units should be produced during the first quarter?

- a. 24,000
- b. 48,000
- c. 66,000
- d. 72,000

38. The following information relates to Minorca Manufacturing Corporation for next quarter:

	January	February	March
Expected sales (in units)	440,000	390,000	400,000
Desired ending finished goods inventory (in units).....	28,000	30,000	35,000

How many units should Minorca plan on producing for the month of February?

- a. 360,000 units
- b. 388,000 units
- c. 392,000 units
- d. 420,000 units