

**FRANKLIN UNIVERSITY**  
**ACCT 225 EXAM 4 REVIEW SESSION**  
*QUESTIONS – STUDENT VERSION*

Chapter 11

1. Sunk costs and future costs that do not differ between the alternatives are not relevant in a decision.
  
2. Fixed costs are irrelevant in decisions about whether a product line should be dropped.
  
3. Eliminating nonproductive time is particularly important in a bottleneck operation.
  
4. Which of the following cash flows is relevant in a decision about accepting Alternative X or Alternative Y?
  - a. a cash inflow for Alternative X that is not a cash inflow for Alternative Y.
  - b. a cash inflow that is lost if Alternative X is accepted and is not lost if Alternative Y is accepted.
  - c. a cash outflow that is avoided if Alternative X is accepted and is not avoided if Alternative Y is accepted.
  - d. all of these.
  
5. The acceptance of a special order will improve overall net operating income so long as the revenue from the special order exceeds:
  - a. the contribution margin on the order.
  - b. the incremental costs associated with the order.
  - c. the variable costs associated with the order.
  - d. the sunk costs associated with the order
  
6. Kinsi Corporation manufactures five different products. All five of these products must pass through a stamping machine in its fabrication department. This machine is Kinsi's constrained resource. Kinsi would make the most profit if it produces the product that:
  - a. uses the lowest number of stamping machine hours.
  - b. generates the highest contribution margin per unit.
  - c. generates the highest contribution margin ratio.
  - d. generates the highest contribution margin per stamping machine hour

7. Rice Corporation currently operates two divisions which had operating results last year as follows:

	West Division	Troy Division
Sales .....	\$600,000	\$300,000
Variable costs .....	<u>310,000</u>	<u>200,000</u>
Contribution margin .....	290,000	100,000
Traceable fixed costs .....	110,000	70,000
Allocated common corporate costs .....	<u>90,000</u>	<u>45,000</u>
Net operating income (loss) .....	<u>\$ 90,000</u>	<u>(\$ 15,000)</u>

Since the Troy Division also sustained an operating loss in the prior year, Rice's president is considering the elimination of this division. Troy Division's traceable fixed costs could be avoided if the division were eliminated. The total common corporate costs would be unaffected by the decision. If the Troy Division had been eliminated at the beginning of last year, Rice Corporation's operating income for last year would have been:

- a. \$15,000 higher
- b. \$30,000 lower
- c. \$45,000 lower
- d. \$60,000 higher

8. Sharp Company produces 8,000 parts each year, which are used in the production of one of its products. The unit product cost of a part is \$36, computed as follows:

Variable production costs .....	\$16
Fixed production costs .....	<u>20</u>
Unit product cost .....	<u>\$36</u>

The parts can be purchased from an outside supplier for only \$28 each. The space in which the parts are now produced would be idle and fixed production costs would be reduced by one-fourth. If the parts are purchased from the outside supplier, the annual impact on the company's operating income will be:

- a. \$24,000 increase
- b. \$24,000 decrease
- c. \$56,000 increase
- d. \$56,000 decrease

9. Landor Appliance Company makes and sells electric fans. Each fan regularly sells for \$42. The following cost data per fan is based on a full capacity of 150,000 fans produced each period.

Direct materials .....	\$8
Direct labor .....	\$9
Manufacturing overhead (70% variable and 30% unavoidable fixed) .....	\$10

A special order has been received by Landor for a sale of 25,000 fans to an overseas customer. The only selling costs that would be incurred on this order would be \$4 per fan for shipping. Landor is now selling 120,000 fans through regular channels each period. What should Landor use as a minimum selling price per fan in negotiating a price for this special order?

- a. \$28
- b. \$27
- c. \$31
- d. \$24

10. Holden Company produces three products, with costs and selling prices as follows:

	Product A		Product B		Product C	
Selling price per unit .....	\$30	100%	\$20	100%	\$15	100%
Variable costs per unit.....	<u>18</u>	60%	<u>15</u>	75%	<u>6</u>	40%
Contribution margin per unit....	<u>\$12</u>	40%	<u>\$5</u>	25%	<u>\$9</u>	60%

A particular machine is a bottleneck. On that machine, 3 machine hours are required to produce each unit of Product A, 1 hour is required to produce each unit of Product B, and 2 hours are required to produce each unit of Product C. In which order should it produce its products?

- a. C, A, B
- b. A, C, B
- c. B, C, A
- d. The order of production doesn't matter.

## Chapter 12

1. A project's net present value, ignoring income taxes, is affected by:
  - a. the net book value of an asset that is replaced.
  - b. the depreciation on an asset that is replaced.
  - c. the depreciation to be taken on assets used directly on the project.
  - d. proceeds from the sale of an asset that is replaced
  
2. The project profitability index and the internal rate of return:
  - a. will always result in the same preference ranking for investment projects.
  - b. will sometimes result in different preference rankings for investment projects.
  - c. are less dependable than the payback method in ranking investment projects.
  - d. are less dependable than net present value in ranking investment projects.
  
3. A project has an initial investment of \$100,000 and a project profitability index of 0.15. The discount rate is 12%. The net present value of the project is closest to:
  - a. \$15,000
  - b. \$115,000
  - c. \$112,000
  - d. \$12,000
  
4. (Ignore income taxes in this problem.) Ryner Corporation is considering three investment projects-S, T, and U. Project S would require an investment of \$20,000, Project T of \$69,000, and Project U of \$83,000. No other cash outflows would be involved. The present value of the cash inflows would be \$23,200 for Project S, \$77,970 for Project T, and \$94,620 for Project U. Rank the projects according to the profitability index, from most profitable to least profitable.
  - a. U,T,S
  - b. T,S,U
  - c. U,S,T
  - d. S,U,T

5. (Ignore income taxes in this problem.) The management of Lanzilotta Corporation is considering a project that would require an investment of \$263,000 and would last for 8 years. The annual net operating income from the project would be \$66,000, which includes depreciation of \$31,000. The scrap value of the project's assets at the end of the project would be \$15,000. The payback period of the project is closest to:

- a. 3.8 years
- b. 2.6 years
- c. 2.7 years
- d. 4.0 years

6. (Ignore income taxes in this problem.) An expansion at Fey, Inc., would increase sales revenues by \$150,000 per year and cash operating expenses by \$47,000 per year. The initial investment would be for equipment that would cost \$328,000 and have an 8 year life with no salvage value. The annual depreciation on the equipment would be \$41,000. The simple rate of return on the investment is closest to:

- a. 41.3%
- b. 18.9%
- c. 12.5%
- d. 31.4%

7. When done properly, the total-cost and incremental-cost approaches to choosing between alternatives will yield the same answers.

8. For capital budgeting decisions, the net present value method is superior to the payback method.

9. The project profitability index is computed by dividing the net present value of the project by the length of the project in years.

10. The payback method is most appropriate for projects whose useful lives are short and unpredictable.