Exam

Name_____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) When the selling price per unit decreases, the breakeven point: 1) _____
A) remains the same.
B) increases.
C) decreases proportionately.
D) decreases.

2) When the selling price per unit decreases, the contribution margin per unit: 2) _____
A) increases.
B) increases proportionately.
C) decreases.
D) remains the same.

3) The phone bill for an accounting firm consists of both fixed and variable costs. Refer to the 4-month data below and apply the high-low method to answer the question. (Round your intermediate calculations to two decimal places) 3) _____

	Minutes	Total Bill
January	460	$3,000
February	200	$2,675
March	160	$2,625
April	300	$2,800

What is the fixed portion of the total cost?
A) $2,425 B) $2,625 C) $2,225 D) $1,850

4) The high-low method is used to: 4) _____
A) separate mixed costs into their variable and fixed components.
B) identify the relevant and irrelevant costs of a business.
C) determine the sales level at highest capacity.
D) determine the highest price that can be charged for a product.

5) Which of the following is a period cost? 5) _____
A) Direct materials cost
B) Manufacturing overhead
C) Administrative cost
D) Direct labor cost

6) Which of the following is the right formula for calculating total mixed cost? 6) _____
A) Total mixed cost = (Variable cost per unit × Number of units) – Total fixed cost
B) Total mixed cost = (Variable cost per unit ÷ Number of units) – Total fixed cost
C) Total mixed cost = (Variable cost per unit × Number of units) + Total fixed cost
D) Total mixed cost = (Variable cost per unit ÷ Number of units) + Total fixed cost

7) When the total variable costs are deducted from total mixed costs, we obtain: 7) _____
A) variable cost per unit.
B) total fixed costs.
C) mixed cost per unit.
D) total high-low costs.

8) Colin was a professional classical guitar player until his motorcycle accident that left him disabled. After long months of therapy, he hired an experienced luthier (maker of stringed instruments) and started a small shop to make and sell Spanish guitars. The guitars sell for $700 and the fixed monthly operating costs are as follows: 8) _____

Rent and utilities	$800
Wages and benefits to luthier	2,500
Other expenses	480

Colin's accountant told him about contribution margin ratios and he understood clearly that for every dollar of sales, $0.60 went to cover his fixed costs, and that anything past that point was pure profit.

Colin is planning to increase the selling price to $750. What impact will the increase in selling price have on the contribution margin ratio?

A) It will go down from 70% to approximately 67%.
B) It will go up from 60% to approximately 63%.
C) It will go up 70% to 75%.
D) It will stay the same.

9) Venus Inc. has fixed costs of $300,000. Total costs, both fixed and variable, are $450,000 when 30,000 units are produced. Calculate the total costs if the volume increases to 60,000 units. 9) _____

A) $450,000 B) $1,200,000 C) $750,000 D) $600,000

10) Which of the following formulae is the right formula for calculating contribution margin ratio? 10) _____

A) Contribution margin ratio = Contribution margin − Net sales revenue
B) Contribution margin ratio = Contribution margin ÷ Net sales revenue
C) Contribution margin ratio = Contribution margin × Net sales revenue
D) Contribution margin ratio = Contribution margin + Net sales revenue

11) Porterhouse Company incurs both fixed and variable production costs. Assuming the production is within the relevant range, if volume goes up by 20%, then the total fixed costs would: 11) _____

A) increase by an amount less than 20%. B) increase by 20%.
C) decrease by 20%. D) remain the same.

12) The phone bill for an accounting firm consists of both fixed and variable costs. Refer to the 4-month data below and apply the high-low method to answer the question. 12) _____

	Minutes	Total Bill
January	460	$3,000
February	200	$2,675
March	160	$2,625
April	300	$2,800

What is the variable cost per minute?

A) $0.58 B) $1.08 C) $1.25 D) $0.67

13) Anthony Company's highest point of total cost was $75,000 in June. Their point of lowest cost was $50,000 in December. The company makes a single product. Production volume in June and December were 13,000 and 8,000 units, respectively. What is the fixed cost per month? 13) _____

A) $50,000 B) $10,000 C) $8,000 D) $20,000

14) Colin was a professional classical guitar player until his motorcycle accident that left him disabled. After long months of therapy, he hired an experienced luthier (maker of stringed instruments) and started a small shop to make and sell Spanish guitars. The guitars sell for $700 and the fixed monthly operating costs are as follows: 14) _____

Rent and utilities	$800
Wages and benefits to luthier	2,500
Other expenses	480

Colin's accountant told him about contribution margin ratios and he understood clearly that for every dollar of sales, $0.60 went to cover his fixed costs, and that anything past that point was pure profit.

How many guitars does Colin have to sell each month to break even?

A) 6 guitars B) 7 guitars C) 9 guitars D) 14 guitars

Question 7: Using the following data answer the following questions, all questions are independent.

Selling Price	$20
Variable Costs per unit	$6
Fixed Costs	$70,000
Target Profit	$20,000
Units sold	6,000

A. Calculate the Contribution Margin

B. Calculate the Contribution Margin Ratio

C. Calculate the Break Even Quantity

D. Calculate the Break Even Sales

E. Calculate the Margin of Safety

F. Calculate units to be sold for achieving the target profit

Drake Company's income statement for the most recent year appears below:

Sales (52,000 units)	$1,300,000
Less: Variable expenses	884,000
Contribution margin	416,000
Less: Fixed expenses	468,000
Net operating loss	$ (52,000)

1. The unit contribution margin is: _____

2. The break-even point in sales dollars is: _____

3. The break-even point in units is: _____

4. If the company desires a net operating income of $100,000, the number of units needed to be sold is:

   _____

5. The sales manager is convinced that a $120,000 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:

   _____

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Show Detailed Calculations:

Browning Company sells two products-X and Y. Product X sells for $25 per unit with variable costs of $15. Product Y sells for $30 with variable costs of $20. Total fixed costs for the company are $20,000. Browning Company typically sells three units of Product X for every unit of Product Y.

1- Compute breakeven point in total units
2- Compute breakeven point in units for product X and product Y?
3- Compute breakeven point in Sales Dollars for product X and Y required to earn target profit of $10,000?
4- Prepare Browning Company contribution margin income statement using data in requirement 3.