Accounting 1820

Exam 4

Fall 2015

Monday, November 23, 2015

1) Brannon Company manufactures ceiling fans and uses an activity-based costing system. Each ceiling fan consists of 20 separate parts. The direct material cost is $95 and each ceiling fan requires 2.5 hours of machine time to manufacture. There is no direct labor cost. Additional information is as follows:

Activity	Allocation Base	Cost Allocation Rate $
Materials handling	Number of parts	0.08
Machining	Machine hours	7.20
Assembling	Number of parts	0.35
Packaging	Number of finished units	2.70

What is the total manufacturing cost per ceiling fan?
A) $125.75
B) $121.13
C) $115.32
D) $124.30

2) Oscar prizes, a manufacturer of gift articles, uses a single plant wide rate to allocate indirect costs. The company allocates manufacturing overhead using a single plantwide rate with machine hours as the allocation base. Estimated overhead cost for the year is $5,000,000 and estimated machine hours are 25,000. During the year, the actual machine hours used were 30,000. Calculate the predetermined overhead allocation rate.
A) $166
B) $250
C) $200
D) $150

3) Archid, a manufacturer of spare parts, has two production departments: Assembling and Packaging. The Assembling department is machine oriented, while the Packaging department is labor oriented. Estimated manufacturing overhead costs for the year 2015 were $15,000,000 for Assembling and $10,000,000 for Packaging. Calculate departmental wide allocation rates if total estimated machine hours were 30,000 and labor hours were 20,000 for the year.
A) $250, $300
B) $500, $500
C) $300, $300
D) $450, $540

4) Pitt Jones Company had the following activities, allocated costs, and allocation bases:

Activities	Allocated Costs	Allocation Base
Account inquiry (hours)	$60,000	2,000 hours
Account billing (lines)	$30,000	20,000 lines
Account verification (accounts)	$15,000	20,000 accounts
Correspondence (letters)	$10,000	1,000 letters

The above activities are carried out at two of their regional offices.

	Northeast Office	Midwest Office
Account inquiry (hours)	100 hours	200 hours
Account billing (lines)	10,000 lines	7,000 lines
Account verification (accounts)	1,000 accounts	600 accounts
Correspondence (letters)	50 letters	100 letters

What is the cost per letter for the correspondence activity?
A) $10.00
B) $30.50
C) $25.00
D) $0.75

5) Pitt Jones Company had the following activities, allocated costs, and allocation bases:

Activities	Allocated Costs	Allocation Base
Account inquiry (hours)	$60,000	2,000 hours
Account billing (lines)	$30,000	20,000 lines
Account verification (accounts)	$15,000	20,000 accounts
Correspondence (letters)	$10,000	1,000 letters

The above activities are carried out at two of their regional offices.

	Northeast Office	Midwest Office
Account inquiry (hours)	100 hours	200 hours
Account billing (lines)	10,000 lines	7,000 lines
Account verification (accounts)	1,000 accounts	600 accounts
Correspondence (letters)	50 letters	100 letters

How much of the account inquiry cost will be assigned to the Midwest Office?
A) $2,000
B) $6,500
C) $3,000
D) $6,000

6) Pitt Jones Company had the following activities, allocated costs, and allocation bases:

Activities	Allocated Costs	Allocation Base
Account inquiry (hours)	$60,000	2,000 hours
Account billing (lines)	$30,000	20,000 lines
Account verification (accounts)	$15,000	20,000 accounts
Correspondence (letters)	$10,000	1,000 letters

The above activities are carried out at two of their regional offices.

	Northeast Office	Midwest Office
Account inquiry (hours)	100 hours	200 hours
Account billing (lines)	10,000 lines	7,000 lines
Account verification (accounts)	1,000 accounts	600 accounts
Correspondence (letters)	50 letters	100 letters

How much of the correspondence cost will be assigned to the Northeast Office?

A) $500

B) $1,200

C) $2,500

D) $800

7) Pitt Jones Company had the following activities, allocated costs, and allocation bases:

Activities	Allocated Costs	Allocation Base
Account inquiry (hours)	$60,000	2,000 hours
Account billing (lines)	$30,000	20,000 lines
Account verification (accounts)	$15,000	20,000 accounts
Correspondence (letters)	$10,000	1,000 letters

The above activities are carried out at two of their regional offices.

	Northeast Office	Midwest Office
Account inquiry (hours)	100 hours	200 hours
Account billing (lines)	10,000 lines	7,000 lines
Account verification (accounts)	1,000 accounts	600 accounts
Correspondence (letters)	50 letters	100 letters

How much of the account verification costs will be assigned to the Northeast Office?

A) $800

B) $2,500

C) $750

D) $1,500

8) Which of the following statements is true?
A) Many traditional costing systems can distort product costs and profitability.
B) Traditional costing systems tend to be more costly than activity-based costing systems.
C) Activity-based costing systems tend to combine various costs into a single cost pool.
D) Activity-based costing systems tend to use fewer cost pools than does a traditional costing system.

9) Quality Stereo Company has provided the following information regarding its activity-based costing system:

- Purchasing department costs are allocated based on the number of purchase orders and the cost allocation rate is $75 per purchase order.
- Assembly department costs are allocated based on the number of parts used and the cost allocation rate is $1.00 per part.
- Packaging department costs are allocated based on the number of units produced and the allocation rate is $2.00 per unit produced.

Each stereo produced has 50 parts, and the direct materials cost per unit is $70. There are no direct labor costs. Quality Stereo has an order for 1,000 stereos which will require 50 purchase orders in all. What is the total cost of the 1,000 stereos?
A) $125,750
B) $55,750
C) $123,750
D) $122,000

10) Orlando Avionics makes three types of radios for small aircraft: Model A, Model B, and Model C. The manufacturing operations are mechanized and there is no direct labor. Manufacturing overhead costs are significant, and Orlando has adopted an activity-based costing system. Direct materials costs per unit for each model are as follows:

Model A	$28
Model B	$32
Model C	$40

Orlando has three activities: assembly, materials management, and testing. The cost driver for assembly is machine hours. The cost driver for materials management is number of parts, and the cost driver for testing is the number of units of product. Total costs and production volumes for the year 2015 were estimated as follows:

	Total cost	**Total units**	**Cost Driver**
Assembly	$780,000	120,000	Machine hours
Materials management	$120,000	80,000	Parts
Testing	$22,500	5,000	Units

The Model A radio requires 12 parts to construct, and requires 16 machine hours of processing. What is the manufacturing cost to make one unit of Model A?
A) $150.00
B) $132.00
C) $126.50
D) $154.50

11) Johnson Construction Materials Company has a sales office which sells concrete culvert pipe to property developers. The sales office is a revenue center and must prepare a monthly performance report. It has provided the following information.

Revenue Center Performance Report

	Actual	Flexible Budget		Flexible	Sales Volume		Static
Product type:	**Sales Revenue**	**Variance**	**U/F**	**Budget**	**Variance**	**U/F**	**Budget**
40 inch	$31,500			$30,000			$40,000
36 inch long	$40,150			$42,000			$33,000
36 inch short	$36,200			$33,000			$30,000
32 inch	$19,000			$20,000			$28,000

How much is the flexible budget variance for the 40 inch pipe?
A) $1,850 U
B) $3,000 F
C) $10,000 U
D) $1,500 F

12) Johnson Construction Materials Company has a sales office which sells concrete culvert pipe to property developers. The sales office is a revenue center and must prepare a monthly performance report. It has provided the following information.

Revenue Center Performance Report

	Actual	Flexible Budget		Flexible	Sales Volume		Static
Product type:	**Sales Revenue**	**Variance**	**U/F**	**Budget**	**Variance**	**U/F**	**Budget**
40 inch	$31,500			$30,000			$40,000
36 inch long	$40,150			$42,000			$33,000
36 inch short	$36,200			$33,000			$30,000
32 inch	$19,000			$20,000			$28,000

How much is the sales volume variance for the 36 inch long pipe?
A) $1,850 U
B) $9,000 F
C) $10,000 U
D) $1,500 F

13) Johnson Construction Materials Company has a sales office which sells concrete culvert pipe to property developers. The sales office is a revenue center and must prepare a monthly performance report. Below is the partially completed performance report.

Revenue Center Performance Report

	Actual	Flexible Budget		Flexible	Sales Volume		Static
Product type:	Sales Revenue	Variance	U/F	Budget	Variance	U/F	Budget
40 inch	$31,500			$30,000			$40,000
36 inch long	$40,150			$42,000			$33,000
36 inch short	$36,200			$33,000			$30,000
32 inch	$19,000			$20,000			$28,000

The company uses management by exception to address flexible budget variances. On which variance would the company focus first?
A) 40 inch
B) 36 inch long
C) 36 inch short
D) 32 inch

14) Zhongfang Consumer Products has a small car division that operates as a profit center. Below is a partially completed performance report for the first quarter.

	Actual	Flexible Budget	Flexible Budget Variance	U/F	% Variance	U/F
Sales Revenue	$688,000	$700,000				
Variable expenses	309,000	320,000				
Contribution margin	379,000	380,000				
Traceable fixed expenses	371,000	368,000				
Division margin	$8,000	$12,000				

How much is the percentage flexible budget variance for sales revenue?
A) 1.7 % F
B) 1.7 % U
C) 3.4 % U
D) 3.4 % F

15) Zhongfang Consumer Products has a small car division that operates as a profit center. Below is a partially completed performance report for the first quarter.

	Actual	Flexible Budget	Flexible Budget Variance	U/F	% Variance	U/F
Sales Revenue	$688,000	$700,000				
Variable expenses	309,000	320,000				
Contribution margin	379,000	380,000				
Traceable fixed expenses	371,000	368,000				
Division margin	$8,000	$12,000				

How much is the percentage flexible budget variance for traceable fixed expenses?
A) 0.8 % F
B) 0.8 % U
C) 0.3 % U
D) 0.3 % F

16) Brannon Company manufactures ceiling fans and uses an activity-based costing system. Each ceiling fan consists of 20 separate parts. The direct material cost is $95 and each ceiling fan requires 2.5 hours of machine time to manufacture. Additional information is as follows:

Activity	Allocation Base	Cost Allocation Rate $
Materials handling	Number of parts	0.08
Machining	Machine hours	7.20
Assembling	Number of parts	0.35
Packaging	Number of finished units	2.70

What is the cost of assembling per ceiling fan?
A) $87.50
B) $7.00
C) $7.50
D) $35.00

17) Brannon Company manufactures ceiling fans and uses an activity-based costing system. Each ceiling fan consists of 20 separate parts. The direct material cost is $95 and each ceiling fan requires 2.5 hours of machine time to manufacture. There is no direct labor cost. Additional information is as follows:

Activity	Allocation Base	Cost Allocation Rate $
Materials handling	Number of parts	0.08
Machining	Machine hours	7.20
Assembling	Number of parts	0.35
Packaging	Number of finished units	2.70

What is the total manufacturing cost per ceiling fan?
A) $125.75
B) $121.13
C) $115.32
D) $124.30

18) Oscar prizes, a manufacturer of gift articles, uses a single plant wide rate to allocate indirect costs. The company allocates manufacturing overhead using a single plantwide rate with machine hours as the allocation base. Estimated overhead cost for the year is $5,000,000 and estimated machine hours are 25,000. During the year, the actual machine hours used were 30,000. Calculate the predetermined overhead allocation rate.
A) $166
B) $250
C) $200
D) $150

19) Zhongfang Consumer Products has a small car division that operates as a profit center. Below is a partially completed performance report for the first quarter.

	Actual	Flexible Budget	Flexible Budget Variance	U/F	% Variance	U/F
Sales Revenue	$688,000	$700,000				
Variable expenses	309,000	320,000				
Contribution margin	379,000	380,000				
Traceable fixed expenses	371,000	368,000				
Division margin	$8,000	$12,000				

How much is the percentage flexible budget variance for sales revenue?
A) 1.7 % F
B) 1.7 % U
C) 3.4 % U
D) 3.4 % F

20) Archid, a manufacturer of spare parts, has two production departments: Assembling and Packaging. The Assembling department is machine oriented, while the Packaging department is labor oriented. Estimated manufacturing overhead costs for the year 2015 were $15,000,000 for Assembling and $10,000,000 for Packaging. Calculate departmental wide allocation rates if total estimated machine hours were 30,000 and labor hours were 20,000 for the year.

A) $250, $300
B) $500, $500
C) $300, $300
D) $450, $540

21) Rica Company is a price-taker and uses target pricing. Refer to the following information:

Production volume	600,000	units per year
Market price	$30	per unit
Desired operating income	15%	of total assets
Total assets	$13,900,000	
Variable cost per unit	$18	per unit
Fixed cost per year	$5,600,000	per year

With the current cost structure, Rica cannot achieve its profit goals. It will have to reduce either the fixed costs or the variable costs. Assuming that variable costs cannot be reduced, how much will be the target fixed costs per year?

A) $5,115,000
B) $5,600,000
C) $10,315,000
D) $5,200,000

22) Rica Company is a price-taker and uses target pricing. Please refer to the following information:

Production volume	600,000	units per year
Market price	$30	per unit
Desired operating income	15%	of total assets
Total assets	$13,900,000	
Variable cost per unit	$18	per unit
Fixed cost per year	$5,600,000	per year

With the current cost structure, Rica cannot achieve its profit goals. It will have to reduce either the fixed costs or the variable costs. Assuming that fixed costs cannot be reduced, how much will be the target variable costs per year?

A) $10,315,000
B) $5,115,000
C) $5,600,000
D) $5,200,000

23) Rica Company is a price-taker and uses target pricing. Refer to the following information:

Production volume	600,000	units per year
Market price	$30	per unit
Desired operating income	15%	of total assets
Total assets	$13,900,000	
Variable cost per unit	$18	per unit
Fixed cost per year	$5,600,000	per year

With the current cost structure, Rica cannot achieve its profit goals. It will have to reduce either the fixed costs or the variable costs. Assuming that fixed costs cannot be reduced, how much will be the target variable costs per unit per year? (Round your answer to the nearest cent.)

A) $26.53

B) $9.33

C) $17.19

D) $18

24) Gotham Products is a price-taker and uses target pricing. Gotham has just done an analysis of their revenues, costs and desired profits, and has calculated its target full product cost. Refer to the following information:

Target full product cost	$500,000	per year
Actual fixed cost	$280,000	per year
Actual variable cost	$2	per unit
Production volume	150,000	units per year

Actual costs are currently higher than target full product cost. Assuming that fixed costs cannot be reduced, how much is the target variable cost per unit?

A) $1.20

B) $1.47

C) $1.33

D) $3.33

25) Fantabulous Products sells 2,000 kayaks per year at a price of $450 per unit. Fantabulous sells in a highly competitive market and uses target pricing. The company has $1,000,000 of assets and the shareholders wish to make a profit of 18% on assets. How much is the target full product cost?

A) $1,800,000

B) $720,000

C) $1,062,000

D) $712,500

26) Fantabulous Products sells 2,000 kayaks per year at a price of $450 per unit. Fantabulous sells in a highly competitive market and uses target pricing. The company has $1,000,000 of assets and the shareholders wish to make a profit of 18% on assets. Fixed costs are $500,000 per year and cannot be reduced. How much is the target variable costs?

A) $265,000
B) $500,000
C) $720,000
D) $220,000

27) Fantabulous Products sells 2,000 kayaks per year at a price of $450 per unit. Fantabulous sells in a highly competitive market and uses target pricing. The company has $1,000,000 of assets and the shareholders wish to make a profit of 18% on assets. Variable cost is $200 per unit and cannot be reduced. How much is the target fixed costs?

A) $265,000
B) $720,000
C) $180,000
D) $320,000

28) Centric Sail Makers manufacture sails for sailboats. The company has the capacity to produce 35,000 sails per year, and is currently producing and selling 25,000 sails per year. The following information relates to current production:

Sale price per unit	$175
Variable costs per unit:	
Manufacturing	60
Marketing and administrative	20
Total fixed costs:	
Manufacturing	$700,000
Marketing and administrative	$300,000

If a special sales order is accepted for 5,500 sails at a price of $150 per unit, and fixed costs remain unchanged, what is the change in operating income? (Assume the special sales order will require variable manufacturing costs and variable marketing and administrative costs.)

A) Operating income decreases by $825,000.
B) Operating income increases by $825,000.
C) Operating income decreases by $385,000.
D) Operating income increases by $385,000.

29) Centric Sail Makers manufacture sails for sailboats. The company has the capacity to produce 35,000 sails per year, and is currently producing and selling 25,000 sails per year. The following information relates to current production:

Sale price per unit	$175
Variable costs per unit:	
Manufacturing	60
Marketing and administrative	20
Total fixed costs:	
Manufacturing	$700,000
Marketing and administrative	$300,000

If a special sales order is accepted for 5,500 sails at a price of $150 per unit, fixed costs remain unchanged, and there are no variable marketing and administrative costs for this order, what is the change in operating income?

A) Operating income decreases by $385,000.
B) Operating income decreases by $495,000.
C) Operating income increases by $385,000.
D) Operating income increases by $495,000.

30) Centric Sail Makers manufacture sails for sailboats. The company has the capacity to produce 35,000 sails per year, and is currently producing and selling 25,000 sails per year. The following information relates to current production:

Sale price per unit	$175
Variable costs per unit:	
Manufacturing	60
Marketing and administrative	20
Total fixed costs:	
Manufacturing	$700,000
Marketing and administrative	$300,000

If a special sales order is accepted for 5,500 sails at a price of $150 per unit, and if the order requires both variable manufacturing and variable marketing and administrative costs, and incremental fixed costs of $400,000, what will be the impact on operating income?

A) Operating income decreases by $385,000.
B) Operating income decreases by $15,000.
C) Operating income increases by $385,000.
D) Operating income increases by $15,000.

31) Centric Sail Makers manufacture sails for sailboats. The company has the capacity to produce 30,000 sails per year, and is currently producing and selling 25,000 sails per year. The following information relates to current production:

Sale price per unit	$175
Variable costs per unit:	
Manufacturing	60
Marketing and administrative	20
Total fixed costs:	
Manufacturing	$700,000
Marketing and administrative	$300,000

Fixed manufacturing costs increase by $100,000 for every 500 units produced beyond the maximum capacity of the plant. If a special sales order is accepted for 5,500 sails at a price of $150 per unit, and if the order requires no variable and fixed marketing and administrative costs, what will be the effect on operating income?

A) Operating income increases $395,000.
B) Operating income decreases $395,000.
C) Operating income increases $385,000.
D) Operating income decreases $385,000.

32) Paragon Products sells a special kind of navigation equipment for $1,200. Variable costs are $900 per unit. When a special order arrived from a foreign contractor to buy 40 units at a reduced price of $1,000 per unit, there was a discussion among management. The controller said that as long as the special price was greater than the variable costs, the sale would contribute to the company's profits, and so it should be accepted as offered. The vice-president, however, decided to decline the order. Which of the following statements, if true, will support the decision of the vice-president?

A) The order is not likely to affect the regular sales.
B) The company is operating at 70% of its production capacity.
C) The variable costs of $900 includes variable costs of packing the product.
D) The company will need to hire additional staff to execute this order.

33) Hilltop Golf Course is planning for the coming season. Investors would like to earn a 15% return on the company's $60,000,000 of assets. The company primarily incurs fixed costs to groom the greens and fairways. Fixed costs are projected to be $30,000,000 for the golfing season. About 600,000 rounds of golf are expected to be played each year. Variable costs are about $15 per round of golf. Hilltop golf course has a favorable reputation in the area and therefore, has some control over the price of a round of golf. Using a cost-plus pricing approach, what price should Hilltop charge for a round of golf to achieve the desired profit?

A) $50
B) $60
C) $70
D) $80

34) Hilltop Golf Course is planning for the coming season. Investors would like to earn a 15% return on the company's $60,000,000 of assets. The company primarily incurs fixed costs to groom the greens and fairways. Fixed costs are projected to be $30,000,000 for the golfing season. About 600,000 rounds of golf are expected to be played each year. Variable costs are about $15 per round of golf. Hilltop golf course is a price-taker and will not be able to charge more than its competitors, who charge $75 per round of golf. What profit will it earn in terms of dollars?

A) $6,000,000
B) $9,000,000
C) $48,000,000
D) $45,000,000

35) Gabriel Metalworks produces a special kind of metal ingots which are unique, and it allows Gabriel to follow a cost-plus pricing strategy. Gabriel has $10,000,000 of assets and shareholders expect approximately 9% return on assets. Additional data are as follows:

Sales volume	400,000	units per year
Variable costs	$15	per unit
Fixed cost	$1,500,000	per year

Using the cost-plus pricing approach, what should be the price per unit?

A) $19
B) $20
C) $21
D) $22

36) Fine Arts Inc. produces a special kind of light weight, recreational vehicle that has a unique design. It allows the company to follow a cost-plus pricing strategy. It has $9,000,000 of assets and shareholders expect a 10% return on assets. Additional data are as follows:

Sales volume	4,000	units per year
Variable costs	$2,000	per unit
Fixed cost	$3,500,000	per year

Using the cost-plus pricing approach, what should be the price per unit?

A) $3,100
B) $2,875
C) $2,225
D) $3,015

37) Yummy Foods sells jars of special spices used in Spanish cooking. The variable cost is $1 per unit. Fixed costs are $9,000,000 per year. It has $40,000,000 of assets, and investors expect a return of 5% on their assets. Yummy Foods sells 5,000,000 units per year. They use cost-plus pricing because they are the only company which produces this kind of product. Using cost-plus pricing methodology, determine the price per unit. (Round your answer to the nearest cent)

A) $1.40

B) $3.20

C) $2.80

D) $1.90

38) Sprint Company makes special equipment used in cell towers. Each unit sells for $400. Sprint uses just-in-time inventory procedures; it produces and sells 12,500 units per year. It has provided the following income statement data:

Traditional Costing		Contribution Margin	
Revenue	$5,000,000	Revenue	$5,000,000
Cost of goods sold	3,000,000	Variable Expenses	
Gross Profit	2,000,000	Manufacturing	1,000,000
Selling & admin expenses	650,000	Selling & admin	400,000
		Contribution Margin	3,600,000
		Fixed Expenses	
		Manufacturing	2,000,000
		Selling & admin	250,000
Operating income	$1,350,000	Operating income	$1,350,000

A foreign company has offered to buy 100 units for a reduced price of $250 per unit. The marketing manager says the sale will not negatively impact the company's regular sales. The sales manager says that this sale will not require any incremental selling & administrative costs, as it is a one-time deal. The production manager reports that there is plenty of excess capacity to accommodate the deal without requiring any additional fixed costs. If Sprint accepts the deal, how will this impact operating income?

A) up $17,000

B) down $8,000

C) up $25,000

D) down $800

39) Sprint Company makes special equipment used in cell towers. Each unit sells for $400. Sprint produces and sells 12,500 units per year. They have provided the following income statement data:

Traditional Costing		Contribution Margin	
Revenue	$5,000,000	Revenue	$5,000,000
Cost of goods sold	3,000,000	Variable Expenses	
Gross Profit	2,000,000	Manufacturing	1,000,000
Selling & admin expenses	650,000	Selling & admin	400,000
		Contribution Margin	3,600,000
		Fixed Expenses	
		Manufacturing	2,000,000
		Selling & admin	250,000
Operating income	$1,350,000	Operating income	$1,350,000

A foreign company has offered to buy 80 units for a reduced price of $300 per unit. The marketing manager says the sale will not negatively affect the company's regular sales. The sales manager says that this sale will require incremental selling & administrative costs, as it is a one-time deal. The production manager reports that there is plenty of excess capacity to accommodate the deal without requiring any additional fixed costs. If Sprint accepts the deal, how will this impact operating income?
A) up $15,040
B) down $15,040
C) up $24,000
D) down $24,000

40) Sprint Company makes special equipment used in cell towers. Each unit sells for $400. Sprint produces and sells 12,500 units per year. They have provided the following income statement data:

Traditional Costing		Contribution Margin	
Revenue	$5,000,000	Revenue	$5,000,000
Cost of goods sold	3,000,000	Variable Expenses	
Gross Profit	2,000,000	Manufacturing	1,000,000
Selling & admin expenses	650,000	Selling & admin	400,000
		Contribution Margin	3,600,000
		Fixed Expenses	
		Manufacturing	2,000,000
		Selling & admin	250,000
Operating income	$1,350,000	Operating income	$1,350,000

A foreign company has offered to buy 80 units for a reduced price of $300 per unit. The marketing manager says the sale will not negatively affect the company's regular sales. The sales manager says that this sale will require incremental selling & administrative costs, as it is a one-time deal. The production manager reports that it would require an additional $30,000 of fixed manufacturing costs to accommodate the specifications of the buyer. If Sprint accepts the deal, how will this impact operating income?
A) operating income will increase by $5,440
B) operating income will decrease by $14,960
C) operating income will increase by $24,000
D) operating income will decrease by $800

41) Grand Products is a price-setter, and they use cost-plus pricing methodology for pricing their products which are unique, artistically designed architectural decorations. They produce and sell 6,000 units per year, at their maximum capacity. Variable costs are $330 per unit. Total fixed costs are $900,000 per year. The CEO has a target of $50,000 operating income which he wants to hit by year-end. Using the cost-plus pricing method, what price should Grand use? (Round to nearest whole dollar.)
A) $338 per unit
B) $480 per unit
C) $488 per unit
D) $378 per unit

42) Nelson Products is a price-setter, and they use cost-plus pricing methodology for pricing their products which are specialty vacuum tubes used in sound equipment. The CEO is certain that he can produce and sell 300,000 units per year, due to the high demand for the product. Variable costs are $2.40 per unit. Total fixed costs are $980,000 per year. The CEO will receive stock options if he reports $200,000 of operating income for the year. Using the cost-plus pricing method, what price would allow the CEO to achieve his target? (Please round to nearest cent.)
A) $5.67 per unit
B) $6.33 per unit
C) $3.07 per unit
D) $6.15 per unit

43) Meson Production is a price-taker. It produces large spools of electrical wire in a highly competitive market, so it practices target pricing. The current market price of the electric wire is $780 per unit. The company has $3,000,000 in assets and its shareholders expect a return of 6% on assets. The company provides the following information:

Sales volume	100,000	units per year
Variable costs	$700	per unit
Fixed costs	$12,000,000	per year

If variable costs cannot be reduced, how much reduction in fixed costs will be needed to achieve the profit target?
A) $4,180,000
B) $12,000,000
C) $7,820,000
D) $4,200,000

44) Meson Production is a price-taker. It produces large spools of electrical wire in a highly competitive market, so it practices target pricing. The current market price of the electric wire is $800 per unit. The company has $3,000,000 in assets and its shareholders expect a return of 6% on assets. The company provides the following information:

Sales volume	100,000	units per year
Variable costs	$700	per unit
Fixed costs	$12,000,000	per year

If fixed costs cannot be reduced, how much reduction in variable costs will be needed to achieve the profit target?
A) $180,000
B) $12,000,000
C) $2,180,000
D) $4,200,000

45) Meson Production is a price-taker. They produce large spools of electrical wire in a highly competitive market, and so they practice target pricing. The current market price is $800 per unit. The company has $3,000,000 in assets and shareholders expect a return of 6% on assets. The company provides the following information:

Sales volume	100,000	units per year
Variable costs	$700	per unit
Fixed costs	$12,000,000	per year

Currently the cost structure is such that the company cannot achieve its profit objective and must cut costs. If fixed costs cannot be reduced, how much reduction in variable cost per unit will be needed to hit the profit target?
A) reduction in variable cost per unit by $120
B) reduction in variable cost per unit by $1.80
C) reduction in variable cost per unit by $20.30
D) reduction in variable cost per unit by $21.80

46) Which of the following statements is true?
A) Companies are price-takers when their products are unique.
B) Companies are price-setters for a product when there is intense competition.
C) Companies are price-takers for a product when pricing approach emphasizes cost-plus pricing.
D) Companies are price-takers when they have little or no control over the prices of their products or services.

47) Potlatch Company manufactures sonars for fishing boats. Model 100 sells for $200. Potlatch produces and sells 5,000 of them per year. Cost data are as follows:

Variable manufacturing	$105	per unit
Variable marketing	$5	per unit
Fixed manufacturing	$270,000	per year
Fixed marketing & admin	$140,000	per year

An offer has come in for a one-time sale of 100 units at a special price of $120 per unit. The marketing manager says that the sale will not negatively affect the company's regular sales activities, and that it will not require any variable marketing costs. The production manager says that there is plenty of excess capacity and the deal will not impact fixed costs in any way. What is the effect of this deal on operating income?

A) increase $200

B) increase $500

C) decrease $1,000

D) increase $1,500

48) If a company wishes to be a price-setter, which of the following strategies should they take?

A) produce a generic mass-market product

B) enter a competitive market and boost profits by cost cutting

C) produce a unique product

D) produce a commodity and outsource the manufacturing operations

49) Sprint Company makes special equipment used in cell towers. Each unit sells for $400. Sprint uses just-in-time inventory procedures; it produces and sells 12,500 units per year. It has provided the following income statement data:

Traditional Costing		Contribution Margin	
Revenue	$5,000,000	Revenue	$5,000,000
Cost of goods sold	3,000,000	Variable Expenses	
Gross Profit	2,000,000	Manufacturing	1,000,000
Selling & admin expenses	650,000	Selling & admin	400,000
		Contribution Margin	3,600,000
		Fixed Expenses	
		Manufacturing	2,000,000
		Selling & admin	250,000
Operating income	$1,350,000	Operating income	$1,350,000

A foreign company has offered to buy 100 units for a reduced price of $250 per unit. The marketing manager says the sale will not negatively impact the company's regular sales. The sales manager says that this sale will not require any incremental selling & administrative costs, as it is a one-time deal. The production manager reports that there is plenty of excess capacity to accommodate the deal without requiring any additional fixed costs. If Sprint accepts the deal, how will this impact operating income?

A) up $17,000

B) down $8,000

C) up $25,000

D) down $800

50) Grand Products is a price-setter, and they use cost-plus pricing methodology for pricing their products which are unique, artistically designed architectural decorations. They produce and sell 6,000 units per year, at their maximum capacity. Variable costs are $330 per unit. Total fixed costs are $900,000 per year. The CEO has a target of $50,000 operating income which he wants to hit by year-end. Using the cost-plus pricing method, what price should Grand use? (Round to nearest whole dollar.)

A) $338 per unit
B) $480 per unit
C) $488 per unit
D) $378 per unit