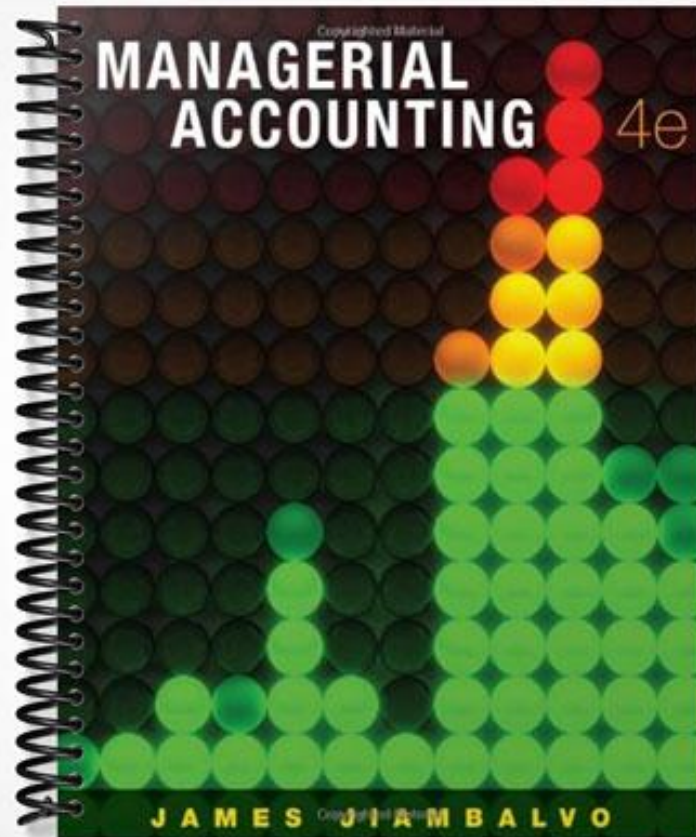


TEST BANK



CHAPTER 1

Managerial Accounting in the Information Age

Summary of Questions by Objectives and Bloom's Taxonomy

Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT
True-False Statements														
1.	1	K	11.	3	K	21.	5	K	31.	7	K	41.	8	K
2.	1	K	12.	3	K	22.	5	K	32.	7	K	42.	8	K
3.	1	K	13.	4	K	23.	5	K	33.	7	K	43.	8	K
4.	2	K	14.	4	K	24.	5	K	34.	7	K	44.	8	K
5.	2	K	15.	4	K	25.	5	K	35.	7	K	45.	9	K
6.	2	K	16.	4	K	26.	6	K	36.	7	K	46.	9	K
7.	3	C	17.	4	K	27.	6	C	37.	7	K	47.	9	K
8.	3	K	18.	5	K	28.	6	K	38.	7	K	48.	9	K
9.	3	K	19.	5	K	29.	6	C	39.	7	K			
10.	3	K	20.	5	K	30.	6	K	40.	7	K			
Multiple Choice Questions														
49.	1	K	68.	5	C	87.	5	AP	106.	6	C	125.	9	K
50.	1	K	69.	5	K	88.	5	AP	107.	6	K	126.	9	KP
51.	2	K	70.	5	K	89.	5	AP	108.	6	AP	127.	9	K
52.	3	C	71.	5	K	90.	5	AP	109.	6	AP	128.	5	AP
53.	3	C	72.	5	K	91.	5	K	110.	6	AP	129.	5	AP
54.	3	K	73.	5	K	92.	5	AP	111.	6	AP	130.	5	AP
55.	3	K	74.	5	K	93.	5	AP	112.	6	AP	131.	5	AP
56.	3	K	75.	5	C	94.	5	AP	113.	6	AP	132.	5	AP
57.	3	K	76.	5	C	95.	5	AP	114.	6	AP	133.	5	AP
58.	3	K	77.	5	K	96.	5	AP	115.	6	K	134.	5	AP
59.	4	K	78.	5	K	97.	5	Ap	116.	7	K	135.	6	AP
60.	4	K	79.	5	C	98.	5	AP	117.	7	K	136.	6	AP
61.	4	K	80.	5	C	99.	6	AP	118.	7	K	137.	5	AP
62.	4	K	81.	5	K	100.	6	AP	119.	8	K	138.	5	AP
63.	5	K	82.	5	AP	101.	6	AP	120.	8	K	139.	5	AP
64.	5	K	83.	5	AP	102.	6	C	121.	8	K	140.	5	AP
65.	5	AP	84.	5	AP	103.	6	K	122.	8	K	141.	5	AP
66.	5	C	85.	5	AP	104.	6	K	123.	9	K	142.	5	AP
67.	5	C	86.	5	AP	105.	6	K	124.	9	K			
Matching														
143.	2,5, 6,7	K												
Exercises														
144.	3	K	147.	5	AP	150.	5	AP	153.	5,6	AP	156.	2,5	AP
145.	5	K	148.	5	AP	151.	5	AP	154.	5,6	AP	157.	6	AN
146.	5	AP	149.	5	AP	152.	5,6	AP	155.	5,6	AP	158.	6	AN
Short-Answer Essays														
159.	3	K	161.	4	C	163.	6	C	165.	7	C			
160.	3	K	162.	5	C	164.	6	C						

TRUE-FALSE

1. Managerial accounting stresses accounting concepts and procedures that are relevant to preparing reports for internal users of accounting information.
2. The goal of managerial accounting is to provide information for planning, controlling and decision making.
3. A thorough understanding of managerial accounting is essential for an effective manager.
4. A budget informs managers of planned production amounts and the cost of resources needed for production.
5. Budgets are financial plans prepared by managerial accountants.
6. Only amounts that can be expressed in dollars and cents can be used in preparing budgets.
7. An unfavorable evaluation of an operation indicates that the manager of that operation is *not* performing adequately.
8. Performance reports are used for control purposes.
9. Performance reports, like other managerial accounting reports, must follow GAAP.
10. Performance reports may show comparisons of current period performance to the planned, or budgeted, performance.
11. Managers need to investigate every difference between actual and budgeted costs in a performance report.
12. Decisions to reward or punish managers are *not* part of the planning and control process.
13. Managerial accounting is directed at external users of accounting information.
14. Managerial accounting must follow generally accepted accounting principles.
15. Managerial accounting may present more detailed information than financial accounting.
16. Managerial accounting is optional and stresses that the information provided should be useful to managers.
17. Financial accounting is concerned with presenting results of past transactions while managerial accounting places considerable emphasis on the future.

18. Variable costs increase or decrease in total in proportion with changes in the level of business activity.
19. Insurance is generally a controllable cost for a factory department supervisor.
20. Variable cost per unit remains the same even though there is a change in the number of units produced.
21. Fixed cost per unit remains constant when the number of units produced changes.
22. Sunk costs are a significant consideration in incremental analysis.
23. Opportunity costs are the value of benefits foregone when one alternative is selected over another.
24. Direct costs are directly traceable to a product, activity, or department.
25. A manager can influence a controllable cost.
26. Incremental analysis involves calculating the difference in revenue and difference in costs between alternatives.
27. The actions of a manager are influenced by the performance measures that are used to evaluate the manager.
28. In general, having a single performance measure by which managers are evaluated will lead to financial success for a company.
29. A good single measure of performance for a sales force would be the ratio of sales to new customers to total sales.
30. Costs that do *not* increase or decrease due to a special order are never considered incremental costs for the special order decision.
31. The current business era is referred to as the information age.
32. Advances in technology make it easier for potential buyers to compare prices globally.
33. The value chain includes the company and its suppliers and customers.
34. Businesses sometimes share sales databases with suppliers so suppliers can respond more quickly.
35. Enterprise resource planning systems focus on automating customer service and support.

36. Enterprise resource planning systems (ERP) often support accounting, human resources, and e-commerce, in addition to production.
37. Supply chain management systems (SCM) allow suppliers some access to a company's databases so goods can more profitably be delivered to a company's customers.
38. Customer Relationship Management Systems (CRM) automate customer service and support.
39. A Customer Relationship Management System (CRM) might allow a customer to track his/her package as it is being shipped across the country.
40. Dell Computer's web site that lets you keep track of your order being built on a daily basis is an example of ERP (Enterprise Resource Planning).
41. All ethical dilemmas have a single correct solution.
42. When making ethical choices, one question you should ask yourself is: "Which alternative will do the most good or the least harm?"
43. The Institute of Management Accountants is primarily responsible for determining GAAP.
44. The Sarbanes-Oxley Act requires that companies provide relevant managerial accounting information to decision-makers.
45. In most organizations, the treasurer is the top managerial accountant.
46. The treasurer usually reports to the controller.
47. The treasurer is responsible for preparing reports for planning and evaluating company activities.
48. The controller has custody of cash and funds invested in marketable securities.

Answers

1 T	9 F	17 T	25 T	33 T	41 F
2 T	10 T	18 T	26 T	34 T	42 T
3 T	11 F	19 F	27 T	35 F	43 F
4 T	12 F	20 T	28 F	36 T	44 F
5 T	13 F	21 F	29 F	37 T	45 F
6 F	14 F	22 F	30 T	38 T	46 F
7 F	15 T	23 T	31 T	39 T	47 F
8 T	16 T	24 T	32 T	40 F	48 F

MULTIPLE CHOICE

49. Managerial accounting stresses accounting concepts and procedures that are relevant to preparing reports for
- A. taxing authorities.
 - B. internal users of accounting information.
 - C. external users of accounting information.
 - D. the Securities and Exchange Commission (SEC).
50. The goal of managerial accounting is to provide information that managers need for
- A. planning.
 - B. control.
 - C. decision making.
 - D. All of the above answers are correct.
51. The financial plans prepared by managerial accountants are referred to as
- A. budgets.
 - B. financial statements.
 - C. treasurer's reports.
 - D. controller's opinions.
52. Which of the following is **not** a reason that actual results may differ from the company's plan?
- A. The plan may not have been followed properly.
 - B. The plan may not have been well thought-out.
 - C. Changing circumstances may have made the plan out of date.
 - D. All of the above are reasons that actual results may differ from the company's plan.
53. It is possible for a manager to receive a positive evaluation when the operation receives a(n)
- A. favorable evaluation.
 - B. neutral or mixed evaluation.
 - C. unfavorable evaluation.
 - D. All of the above answers are correct.
54. The last step in the planning and control process is to
- A. implement the plan.
 - B. construct the plan.
 - C. make decisions based on the evaluation of the results.
 - D. compare actual results to the planned results.

55. Performance reports often compare current period performance with
- performance in a prior period.
 - planned (budgeted) performance.
 - Both A and B are correct.
 - Neither A nor B is correct.
56. A difference between actual costs and planned costs
- should be investigated if the amount is exceptional.
 - indicates that the planned cost was poorly estimated.
 - indicates that the manager is doing a poor job.
 - should be ignored unless it involves the cost of ingredients.
57. The principle that managers follow when they only investigate departures from the plan that appear to be significant is commonly known as
- small amounts don't matter.
 - management by exception.
 - only labor and materials deserve attention.
 - exceptional costs yield exceptional results.
58. Below is a performance report that compares budgeted and actual profit of Mandarin Smoothie for the month of June:

	Budget	Actual	Difference
Sales	\$180,000	\$182,000	\$2,000
Less:			
Cost of ingredients	142,000	146,000	(4,000)
Salaries	<u>11,000</u>	<u>11,200</u>	<u>(200)</u>
Controllable profit	<u>\$27,000</u>	<u>\$24,800</u>	<u>(\$2,200)</u>

- In evaluating the department in terms of its increases in sales and expenses, what will be most important to investigate?
- Sales
 - Cost of ingredients
 - Salaries
 - All three components have equal importance.
59. Managerial accounting
- is primarily directed at external users of accounting information.
 - is required by taxing authorities such as the IRS.
 - must follow GAAP.
 - is optional.

60. The fundamental difference between managerial and financial accounting is that
- all financial accounting information is audited by Certified Public Accountants whereas managerial accounting information is not audited by anyone.
 - managerial accounting is concerned principally with determining the cost of inventory (ending inventory and cost of goods sold), whereas financial accounting is concerned with a wider range of the organization's activities.
 - managerial accounting provides information for decision-makers within the organization, whereas financial accounting provides information for individuals and institutions external to the organization.
 - financial accounting information follows U.S. Generally Accepted Accounting Principles, whereas managerial accounting information generally follows rules set forth by the Institute of Management Accountants.
61. Which of the following is *not* a difference between financial accounting and managerial accounting?
- Financial accounting is primarily concerned with reporting the past, while managerial accounting is more concerned with the future.
 - Managerial accounting uses more nonmonetary information than is used in financial accounting.
 - Managerial accounting is primarily concerned with providing information for external users while financial accounting is concerned with internal users.
 - Financial accounting must follow GAAP while managerial accounting is not required to follow GAAP.
62. Which of the following is most likely to make use of Spruce Company's managerial accounting information?
- the IRS
 - an individual contemplating an investment in Spruce Company
 - a company that is one of Spruce's main competitors
 - the production manager of Spruce's plant in Minnesota
63. Which of the following costs does **not** change when the level of business activity changes?
- total fixed costs
 - total variable costs
 - total direct materials costs
 - fixed costs per unit
64. Variable cost per unit
- increases when the number of units produced increases.
 - does not change when the number of units produced increases.
 - decreases when the number of units produced increases.
 - decreases when the number of units produced decreases.

65. Uno Pizza produced and sold 800 pizzas last month and had total variable ingredients that cost \$3,440. If production and sales are expected to increase by 10% next month, which of the following statements is true?
- A. Total variable materials costs are expected to be \$3,784
 - B. Variable material cost per unit is expected to be \$4.73
 - C. Total variable materials costs are expected to be \$3,444.30
 - D. Total variable materials costs are expected to be \$344
66. A company has a cost that is \$2.00 per unit at a volume of 12,000 units and \$2.00 per unit at a volume of 16,000 units. What type of cost is this?
- A. fixed
 - B. variable
 - C. sunk
 - D. incremental
67. Which of the following is **not** likely to be a fixed cost?
- A. direct materials
 - B. rent
 - C. depreciation
 - D. salary of the human resources director
68. Marco Diner produced and sold 2,000 bagels last month and had fixed costs of \$6,000. If production and sales are expected to increase by 10% next month, which of the following statements is true?
- A. Total fixed costs will increase.
 - B. Total fixed costs will decrease.
 - C. Fixed cost per unit will increase.
 - D. Fixed cost per unit will decrease.
69. Which of the following statements regarding fixed costs is true?
- A. When production increases, fixed cost per unit increases.
 - B. When production decreases, total fixed costs decrease.
 - C. When production increases, fixed cost per unit decreases.
 - D. When production decreases, total fixed costs increase.
70. Costs incurred in the past which are **not** relevant to present decisions are
- A. fixed costs.
 - B. sunk costs.
 - C. opportunity costs.
 - D. indirect costs.

71. A sunk cost is a cost
- A. incurred in the past which is not relevant to present decisions.
 - B. incurred in the current period which changes with changes in production activity.
 - C. incurred in the current period which remains constant even though production activity changes.
 - D. which is estimated to occur in the future.
72. Sunk costs
- A. are not relevant for decision making
 - B. would include the cost of your tuition after the refund deadline has passed.
 - C. are costs that have been incurred in the past.
 - D. All of the above are correct.
73. Opportunity costs are
- A. considered to be fixed costs in the short term.
 - B. another term for sunk costs.
 - C. able to be controlled by most effective managers.
 - D. the value of benefits foregone when one decision is selected over another.
74. The benefits that are given up when another alternative is selected is a(n)
- A. sunk cost.
 - B. controllable cost.
 - C. opportunity cost.
 - D. direct cost.
75. You own a car and are trying to decide whether or not to trade it in and buy a new car. Which of the following costs is an opportunity cost in this situation?
- A. the trip to Cancun that you will not be able to take if you buy the car
 - B. the cost of the car you are trading in
 - C. the cost of your books for this term
 - D. the cost of your car insurance last year
76. A retailer purchased some trendy clothes that have gone out of style and must be marked down to 40% of the original selling price in order to be sold. Which of the following is a sunk cost in this situation?
- A. the current selling price
 - B. the original selling price
 - C. the original purchase price
 - D. the anticipated profit
77. A cost which is directly traceable to a product, activity, or department is a(n)
- A. fixed cost.
 - B. managerial cost.
 - C. opportunity cost.
 - D. direct cost.

78. Which of the following statements regarding direct and indirect costs is true?
- A. The amount of direct costs in a department is always less than the amount of indirect costs in that department.
 - B. A department with no variable costs will also have no direct costs.
 - C. The distinction between a direct and indirect cost depends on the object of the cost tracing.
 - D. If a cost is indirect to a department within a plant, it will also be indirect for the plant as a whole.
79. Which of the following is a direct cost in relation to the cost of teaching the managerial accounting course you are currently taking?
- A. The cost of the paper that you receive as handouts for the class
 - B. The cost of the room you are using for the class
 - C. The cost of the registration system that allowed you to enroll in the class
 - D. The cost of the financial aid department that helps you fund the cost of taking the class
80. Which of the following is likely to be a **noncontrollable** cost of a department supervisor?
- A. labor in the department
 - B. materials used in the department
 - C. insurance on the plant
 - D. overtime premium pay earned by those working in the department
81. A manager should be evaluated based on
- A. noncontrollable costs.
 - B. opportunity costs.
 - C. controllable costs.
 - D. sunk costs.
82. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. How much is the budgeted variable cost per unit?
- A. \$5.80
 - B. \$7.74
 - C. \$6.68
 - D. \$3.25
83. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. What is the budgeted total variable cost?
- A. \$5,200
 - B. \$9,280
 - C. \$10,080
 - D. \$2,300

84. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. What is the budgeted total fixed cost?
- A. \$7,180
 - B. \$1,700
 - C. \$2,300
 - D. \$3,100
85. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. What is the budgeted fixed cost per unit?
- A. \$1.06
 - B. \$1.44
 - C. \$4.49
 - D. \$1.94
86. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. What is Shula's budgeted profit?
- A. \$22,400
 - B. \$13,120
 - C. \$10,020
 - D. \$12,380
87. Shula's 347 Grill has budgeted the following costs for a month in which 1,600 steak dinners will be produced and sold: Materials, \$4,080; hourly labor (variable), \$5,200; rent (fixed), \$1,700; depreciation, \$800; and other fixed costs, \$600. Each steak dinner sells for \$14.00 each. How much would Shula's profit increase if 10 more dinners were sold?
- A. \$140.00
 - B. \$62.60
 - C. \$58.00
 - D. \$82.00
88. Ceradyne projects variable labor costs of \$21,500 in July when 8,600 units are produced. If production is expected to drop to 8,000 units in August, what is the expected labor cost in August?
- A. \$21,500
 - B. \$20,000
 - C. \$23,113
 - D. \$20,900

89. Ceradyne projects its factory rent to be \$6,000 in August when 8,600 units are expected to be produced. If rent is a fixed cost, and if production is expected to drop to 7,000 units in September, what is the expected cost of rent in September?
- A. \$6,000
 - B. \$4,884
 - C. \$4,900
 - D. The answer can not be determined with the information that is given.
90. Paradise Pottery had the following costs in May when production is 800 ceramic pots: materials, \$8,700; labor (variable), \$2,900; depreciation, \$1,100; rent, \$900; and other fixed costs, \$1,500. The variable cost per unit and fixed cost per unit are, respectively,
- A. \$3.63 and \$15.25
 - B. \$17.00 and \$1.88
 - C. \$14.50 and \$4.38
 - D. \$15.88 and \$3.00
91. Paradise Pottery had the following costs in May when production is 800 ceramic pots: materials, \$8,700; labor (variable), \$2,900; depreciation, \$1,100; rent, \$900; and other fixed costs, \$1,500. If production changes to 850 units, which will stay the same?
- A. variable cost per unit
 - B. fixed cost per unit
 - C. total variable cost
 - D. total cost per unit
92. Paradise Pottery had the following costs in May when production is 800 ceramic pots: materials, \$8,700; labor (variable), \$2,900; depreciation, \$1,100; rent, \$900; and other fixed costs, \$1,500. If production changes to 900 units, how much will the total variable costs and total fixed costs be, respectively?
- A. \$13,050 and \$3,500
 - B. \$10,311 and \$3,500
 - C. \$3,267 and \$12,200
 - D. \$14,288 and \$2,400
93. Variable cost per unit is budgeted to be \$6.00 and fixed cost per unit is budgeted to be \$3.00 in a period when 5,000 units are produced. If production is actually 4,500 units, what is the expected total cost of the units produced?
- A. \$45,000
 - B. \$40,500
 - C. \$43,500
 - D. \$42,000

94. In a period when anticipated production is 10,000 units, budgeted variable costs are \$85,000 and budgeted fixed costs are \$45,000. If 12,000 units are actually produced, what is the expected total cost?
- A. \$130,000
 - B. \$156,000
 - C. \$147,000
 - D. \$139,000

95. In a period when anticipated production is 20,000 units, budgeted variable costs are \$85,000 and budgeted fixed costs are \$45,000. If 15,000 units are actually produced, what is the expected total cost?
- A. \$130,000
 - B. \$97,500
 - C. \$108,750
 - D. \$118,750

96. Raron's Rockers is in the process of preparing a production cost budget for August. Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

Materials and labor are the only variable costs. If production and sales are budgeted to increase to 150 chairs in August, how much is the expected total cost on the August budget?

- A. \$18,750
- B. \$9,750
- C. \$16,950
- D. \$17,325

97. Raron's Rockers is in the process of preparing a production cost budget for August. Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

Materials and labor are the only variable costs. If production and sales are budgeted to increase to 150 chairs in August, how much is the expected total variable cost on the August budget?

- A. \$18,750
 B. \$9,750
 C. \$16,950
 D. \$17,325
98. Raron's Rockers is in the process of preparing a production cost budget for August. Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

Materials and labor are the only variable costs. The company has estimated that it can increase sales to 150 chairs in August if it changes the selling price of rockers to \$145 instead of the current \$160 per unit. What is expected to occur to the cost per unit given the expected changes?

- A. It will decline, because fixed costs do not increase with increases in volume.
 B. It will decline because selling price per unit declines.
 C. It will increase because more units will be produced.
 D. It will increase because fixed costs do not increase with increases in volume.
99. Books Galore plans to produce 50,000 books next year at a total cost of \$1,900,000. Fixed costs total \$120,000. Selling price per book is \$65.00. Management is considering lowering the price to \$62.00 per unit, and feels that this action will cause sales to climb to 54,000 books. What are the incremental revenues generated if 54,000 units are sold?
- A. \$44,400
 B. \$98,000
 C. \$3,348,00
 D. \$3,250,000

100. Books Galore plans to produce 50,000 books next year at a total cost of \$1,900,000. Fixed costs total \$120,000. Selling price per book is \$65.00. Management is considering lowering the price to \$62.00 per unit, and feels that this action will cause sales to climb to 54,000 books. What are the incremental costs generated if 54,000 units are sold?
- A. \$1,900,000
 - B. \$1,922,400
 - C. \$142,400
 - D. \$152,000
101. Books Galore plans to produce 50,000 books next year at a total cost of \$1,900,000. Fixed costs total \$120,000. Selling price per book is \$65.00. Management is considering lowering the price to \$62.00 per unit, and feels that this action will cause sales to climb to 54,000 books. What is the incremental profit or loss if 54,000 units are produced and sold?
- A. \$1,425,600 profit
 - B. \$44,400 loss
 - C. \$142,400 loss
 - D. \$1,305,600 profit
102. Calculating the difference in revenue and the difference in cost between decision alternatives is called
- A. budgeting production.
 - B. incremental analysis.
 - C. profit planning.
 - D. systems development.
103. Which of the following statements regarding incremental analysis is **not** true? Assume that there are no opportunity costs and that the capacity exists to complete any of the alternatives.
- A. The preferred alternative will always have revenues that are greater than the revenues of the other alternatives.
 - B. The preferred alternative will always have expenses that are greater than the expenses of the other alternatives.
 - C. The preferred alternative will always have expenses that are less than the expenses of the other alternatives.
 - D. The preferred alternative will always have profits that are greater than the profits of the other alternatives.
104. Actions of managers are greatly influenced by
- A. sunk costs.
 - B. performance measures.
 - C. noncontrollable costs.
 - D. GAAP.

105. Which of the following is **not** a reasonable measure of a manager's performance?
- A. profit
 - B. depreciation method used
 - C. number of late deliveries
 - D. market share
106. "You get what you measure!" refers to the relationship between
- A. managerial accounting and financial accounting.
 - B. direct costs and indirect costs.
 - C. sunk costs and opportunity costs.
 - D. performance measures and actions of managers.
107. If management informs employees that bonuses will depend solely on improving the gross profit ratio (gross profit/sales), which of the following behaviors would be likely to be observed?
- A. Sales people would quit trying to sell high volume, low margin core products
 - B. Overall sales would fall
 - C. Overall gross profit would fall
 - D. All of the above
108. Which of the following statements regarding performance measures is **not** true?
- A. GAAP requires performance measures for all salaried employees.
 - B. Companies can select from many possible performance measures when deciding how they want to assess performance.
 - C. Employees tend to direct their attention to what is measured and may neglect what isn't measured.
 - D. Companies need to develop a balanced set of performance measures and avoid placing too much emphasis on any single measure.
109. ProGo plans to sell 1,200 carriers next year and has budgeted sales of \$48,000 and profits of \$20,000. Variable costs are projected to be \$22 per unit. Nathan Co. offers to pay \$21,000 to buy 600 units from ProGo. Total fixed costs are \$5,000 per year. This offer does **not** affect ProGo's other planned operations. The incremental revenues for this situation are
- A. \$6,000
 - B. \$21,000
 - C. \$7,800
 - D. \$27,000

110. ProGo plans to sell 1,200 carriers next year and has budgeted sales of \$48,000 and profits of \$20,000. Variable costs are projected to be \$22 per unit. Nathan Co. offers to pay \$21,000 to buy 600 units from ProGo. Total fixed costs are \$5,000 per year. This offer does not affect ProGo's other planned operations. The incremental costs for this situation are
- A. \$26,400
 - B. \$15,840
 - C. \$10,800
 - D. \$13,200
111. ProGo plans to sell 1,200 carriers next year and has budgeted sales of \$48,000 and profits of \$20,000. Variable costs are projected to be \$22 per unit. Nathan Co. offers to pay \$21,000 to buy 600 units from ProGo. Total fixed costs are \$5,000 per year. This offer does not affect ProGo's other planned operations. The incremental profit for this situation is
- A. \$7,800
 - B. \$6,000
 - C. \$16,000
 - D. \$20,000
112. Logan Machines has been offered \$21,600 to produce 12,000 gears for a customer. Logan has budgeted sales of 200,000 gears totaling \$500,000, with fixed costs of \$260,000 and total costs of \$420,000. Assuming that Logan has the capacity to produce the additional units and that accepting this order will **not** affect any other orders, what effect will accepting the order have on Logan's profit?
- A. Incremental profit will increase by \$21,600
 - B. Incremental profit will decrease by \$9,600
 - C. Incremental profit will increase by \$12,000
 - D. Incremental profit will decrease by \$3,600
113. Raron's Rockers is in the process of preparing a production cost budget for August. Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

The company is currently producing and selling 144 chairs annually and each chair is sold for \$140.00. The company is considering lowering the price to \$125.00 for which management estimates this will increase sales to 200 chairs. Materials and labor are the only variable costs. How much is the incremental cost associated with producing an extra 56 chairs?

- A. \$65
- B. \$3,640
- C. \$7,000
- D. \$5,507

114. Raron's Rockers is in the process of preparing a production cost budget for August.

Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

The company is currently producing and selling 144 chairs annually and each chair is sold for \$140.00. The company is considering lowering the price to \$125.00 for which management estimates this will increase sales to 200 chairs. Materials and labor are the only variable costs. How much is the incremental revenue associated with the price reduction of \$15 per rocker?

- A. \$1,200
- B. \$2,160
- C. \$4,840
- D. \$3,000

115. Raron's Rockers is in the process of preparing a production cost budget for August.

Actual costs in July for 120 rocking chairs were:

Materials cost	\$ 4,800
Labor cost	3,000
Rent	1,500
Depreciation	2,500
Other fixed costs	<u>3,200</u>
Total	<u>\$15,000</u>

The company is currently producing and selling 144 chairs annually and each chair is sold for \$140.00. The company is considering lowering the price to \$125.00 for which management estimates this will increase sales to 200 chairs. Materials and labor are the only variable costs. Under what situation should the company lower the price of its rockers?

- A. If total revenue exceeds total costs under the new pricing
 - B. If incremental revenue exceeds the old revenue
 - C. If incremental profit is a positive number
 - D. If incremental costs decrease
116. An Enterprise Resource Planning (ERP) system:
- A. grew out of the material requirements planning systems that preceded them.
 - B. will support accounting and finance functions
 - C. prepares a master production schedule
 - D. all of the above.
117. Which of the following would most likely be a Customer Relationship Management System component?
- A. A system allowing customers to do online banking
 - B. A system that prepares a master production schedule
 - C. A system that links the company's suppliers electronically to its databases
 - D. A system that manages human resources.
118. Supply Chain Management Systems (SCM):
- A. computerize inventory control and production planning
 - B. organize activities between a company and its suppliers
 - C. automate customer service and support.
 - D. allow customers to track their purchase as it is being produced.
119. When making ethical decisions, you should consider:
- A. what is right.
 - B. anything that is legally possible.
 - C. what your chances are of getting caught.
 - D. all of the above.
120. Which of the following is *not* one of the questions you should ask when faced with an ethical dilemma?
- A. Do I think I will get caught?
 - B. What decision alternatives are available?
 - C. Would someone I respect find any of the alternatives objectionable?
 - D. What individuals or organizations have a stake in the outcome of the decision?

121. The Institute of Management Accountants (IMA)
- A. is the professional organization of managerial accountants.
 - B. administers the comprehensive examination which must be passed before a person can become a CMA.
 - C. has developed a set of standards of ethical conduct and maintains an ethics hotline
 - D. All of the above statements are true.
122. The organization which administers the Certificate in Management Accounting program is the
- A. GAAP.
 - B. AICPA.
 - C. FASB.
 - D. IMA.
123. In most companies, the top management accountant is called the
- A. financial analyst.
 - B. taxation specialist.
 - C. treasurer.
 - D. controller.
124. Which of the following is **not** usually a responsibility of the controller?
- A. preparing budgets and performance reports
 - B. filing tax returns
 - C. managing cash and marketable securities
 - D. providing information for management decisions
125. Which of the following skills will be needed by those who desire a high-level career in management accounting?
- A. Written and oral communication skills.
 - B. Interpersonal skills.
 - C. Knowledge of the industry in which their firm competes.
 - D. All of the above skills are necessary for success in management accounting.
126. The treasurer is typically responsible for
- A. reporting to the IRS.
 - B. maintaining relationships with investors and creditors.
 - C. auditing the financial statements.
 - D. preparing and analyzing budgets.
127. Many companies have a chief financial officer (CFO). Which of these positions is most likely to report directly to the CFO?
- A. controller
 - B. systems analyst
 - C. payroll supervisor
 - D. plant manager

128. Mattress Firm produces pillow-top mattresses. Each mattress has a variable cost of \$140 and fixed costs are \$41,000 per month. Each sells for \$360. If the company produces and sells 420 mattresses in February, how much profit will the company expect for March?
- A. \$99,800
 - B. \$151,200
 - C. \$51,400
 - D. \$92,400
129. Mattress Firm produces pillow-top mattresses. Each mattress has a variable cost of \$140 and fixed costs are \$41,000 per month. Each sells for \$360. At 420 mattresses to be produced and sold, how much is the unit cost per mattress?
- A. \$220.00
 - B. \$140.00
 - C. \$133.62
 - D. \$237.62
130. Breezes Curacao has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. Fixed costs total \$18,700 per month. If 70% of the rooms are occupied each of the 30 nights in June, how much will total variable costs be for June?
- A. \$546,000
 - B. \$369,600
 - C. \$176,400
 - D. \$252,000
131. Breezes Curacao has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. Fixed costs total \$18,700 per month. If Breezes is able to increase occupancy from 70% to 80% by how much will total costs *increase* per day during the month of June?
- A. \$840
 - B. \$2,710
 - C. \$1,870
 - D. \$1,760
132. Breezes Curacao has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. Fixed costs total \$18,700 per month. If Breezes spends an additional \$30,000 in June on advertising, it estimates it can expect an occupancy rate of 85%. What would be the financial impact of spending this additional money on advertising over an occupancy level of 70% during June?
- A. Net income will increase by \$49,200
 - B. Net income will increase by \$7,800
 - C. Total fixed costs will increase.
 - D. Total costs will increase by \$1,260

133. A company purchases machinery costing \$50,000 in October of 2006. Five years later they discover that a better, more efficient machine they could purchase to replace the existing machine. The new machine will cost \$90,000 and the company has determined that they would be able to sell the original machine for \$30,000. In making the decision about buying the new machine, how much are total sunk costs?
- A. \$60,000
 - B. \$40,000
 - C. \$50,000
 - D. \$10,000
134. Rose Wilson is entering her senior year as an accounting major and has a number of options for her summer break. Her options for the 3 month break follow:
- (1) Work full time at a local accounting firm making \$2,200 per month.
 - (2) Take a summer class which will cost \$800 and work half time making \$1,100 per month.
 - (3) Take a class at a cost of \$800 and not work at all during the summer.

Rose's opportunity cost of taking the class if she chooses option 3 over option 1 would be

- A. \$6,600
 - B. \$800
 - C. \$3,000
 - D. More information is needed.
135. Rose Wilson is entering her senior year as an accounting major and has a number of options for her summer break. Her options for the 3 month break follow:
- (1) Work full time at a local accounting firm making \$2,200 per month.
 - (2) Take a summer class which will cost \$800 and work half time making \$1,100 per month.
 - (3) Take a class at a cost of \$800 and not work at all during the summer.

Rose's incremental revenue if she chooses option 1 over option 2 would be

- A. \$3,300
- B. \$1,600
- C. \$800
- D. \$6,600

136. Rose Wilson is entering her senior year as an accounting major and has a number of options for her summer break. Her options for the 3 month break follow:
- (1) Work full time at a local accounting firm making \$2,200 per month.
 - (2) Take a summer class which will cost \$800 and work half time making \$1,100 per month.
 - (3) Take a class at a cost of \$800 and not work at all during the summer.
- Rose's incremental profit or loss if she chooses option 2 over option 1 would be
- A. (\$1,500)
 - B. (\$4,100)
 - C. (\$1,100)
 - D. (\$2,500)
137. Instant Charm, Inc. sells mascara. In June, it produced and sold 10,000 tubes of mascara. Total variable costs were \$21,000 and fixed costs totaled \$24,000. In July, the company produced and sold 11,000 tubes of mascara. Which of the follow is correct?
- A. Variable costs in total will be \$21,000
 - B. Variable costs per unit will be \$2.10
 - C. Variable costs per unit will be \$4.50
 - D. Total fixed costs will be \$26,400
138. Instant Charm, Inc. sells mascara. In June, it produced and sold 10,000 tubes of mascara. Total variable costs were \$21,000 and fixed costs totaled \$24,000. In August, Instant Charm produced and sold 9,000 units. Which statement is correct?
- A. Fixed cost per unit will be \$2.67
 - B. Total fixed costs will be \$21,600
 - C. Variable costs in total will be \$40,500
 - D. Variable costs per unit will be \$2.33
139. Harmon Pets produces a line of cat food. In August it produced and sold 54,000 bags of food. Total fixed costs were \$27,000. In September it produced 48,000 bags of food. Which statement is true for September?
- A. Total fixed costs will be \$27,000.
 - B. Total fixed costs will be \$24,000.
 - C. Fixed cost per unit will be \$0.50.
 - D. Fixed costs per unit will be \$1.78.
140. Serta Carpet, which manufactures carpet, incurred the following costs for March when 2,600 yards of carpet were produced and sold:
- \$12,200 for nylon thread used on carpet
 - \$16,000 for scotch guard for carpet
 - \$4,000 for jute backing to reinforce the carpet
 - \$5,000 for glue to be used in the manufacturing process
 - \$21,000 for insurance (half for administrative activities, half for production activities)
 - \$7,000 for production employee's wages

- \$10,000 for rent (60% for the production facility, 40% for the administrative offices)

How much are total fixed costs for April if 2,200 yards of carpet are produced and sold?

- A. \$75,200
- B. \$31,000
- C. \$38,000
- D. \$43,000

141. Serta Carpet, which manufactures carpet, incurred the following costs for March when 2,600 yards of carpet were produced and sold:

- \$12,200 for nylon thread used on carpet
- \$16,000 for scotch guard for carpet
- \$4,000 for jute backing to reinforce the carpet
- \$5,000 for glue to be used in the manufacturing process
- \$21,000 for insurance (half for administrative activities, half for production activities)
- \$7,000 for production employee's wages
- \$10,000 for rent (60% for the production facility, 40% for the administrative offices)

How much are total variable costs if 2,200 yards of carpet are produced and sold in April?

- A. \$55,169
- B. \$63,631
- C. \$37,400
- D. \$44,200

142. Serta Carpet, which manufactures carpet, incurred the following costs for March when 2,600 yards of carpet were produced and sold:

- \$12,200 for nylon thread used on carpet
- \$16,000 for scotch guard for carpet
- \$4,000 for jute backing to reinforce the carpet
- \$5,000 for glue to be used in the manufacturing process
- \$21,000 for insurance (half for administrative activities, half for production activities)
- \$7,000 for production employee's wages
- \$10,000 for rent (60% for the production facility, 40% for the administrative offices)

How much are variable costs per unit if 2,200 yards of carpet are produced and sold in April?

- A. \$17.00
- B. \$28.92
- C. \$20.09
- D. \$34.18

Answers

49 B	65 A	81 C	97 B	113 B	129 D
50 D	66 B	82 A	98 A	114 C	130 C
51 A	67 A	83 B	99 B	115 C	131 A
52 D	68 D	84 D	100 C	116 D	132 A
53 D	69 C	85 D	101 B	117 A	133 C
54 C	70 B	86 C	102 B	118 B	134 A
55 C	71 A	87 D	103 D	119 A	135 A
56 A	72 D	88 B	104 B	120 A	136 B
57 B	73 D	89 A	105 B	121 D	137 B
58 B	74 C	90 C	106 D	122 D	138 A
59 D	75 A	91 A	107 D	123 D	139 A
60 C	76 C	92 A	108 A	124 C	140 B
61 C	77 D	93 D	109 B	125 D	141 C
62 D	78 C	94 C	110 D	126 B	142 A
63 A	79 A	95 C	111 A	127 A	
64 B	80 C	96 C	112 C	128 C	

MATCHING

143. Match each of the following terms with the phrase that most closely describes it. Each answer may be used only once.

- _____ 1. Budgets
- _____ 2. Controllable costs
- _____ 3. Direct costs
- _____ 4. Fixed costs
- _____ 5. Incremental costs
- _____ 6. Indirect costs
- _____ 7. Economic Resource Planning system
- _____ 8. Noncontrollable costs
- _____ 9. Opportunity costs
- _____ 10. Supply Chain Management systems
- _____ 11. Sunk costs
- _____ 12. Customer Relationship Managements systems
- _____ 13. Variable costs

- A. Costs that increase or decrease in total in response to increases or decreases in the level of business activity
- B. Costs that are directly traceable to a product, activity, or department
- C. Costs that a manager can influence
- D. The difference in costs between decision alternatives
- E. Costs incurred in the past that are not relevant to present decisions
- F. Costs that cannot be influenced by a manager
- G. Financial plans prepared by management accountants
- H. Value of the benefits foregone when one decision alternative is selected over another
- I. Costs that cannot be directly traced to a product, activity, or department or are not worth tracing
- J. Costs that do not change in total with changes in the level of business activity
- K. These systems prepare a master production systems and all the support across the company.
- L. Allows companies and suppliers to share information to improve efficiency in getting inputs.
- M. Allows customer data analysis and support, often in online format for customers.

Answers

- | | | | |
|----|---|-----|---|
| 1. | G | 8. | F |
| 2. | C | 9. | H |
| 3. | B | 10. | L |
| 4. | J | 11. | E |
| 5. | D | 12. | M |
| 6. | I | 13. | A |
| 7. | K | | |

EXERCISES

144. Below is a performance report that compares budgeted and actual profit in the shoe department of Dillard’s Department Store for the month of June:

	Budget	Actual	Difference
Sales	\$680,000	\$672,000	(\$8,000)
Less:			
Cost of merchandise	330,000	325,000	5,000
Salaries of sales staff	<u>120,000</u>	<u>123,000</u>	<u>(3,000)</u>
Controllable profit	<u>\$230,000</u>	<u>\$224,000</u>	<u>(\$6,000)</u>

Evaluate the department in terms of its increases or decreases in sales and expenses. Do you believe it would be useful to investigate either or both of the increases in expenses?

Answer

Sales decreased by 1.2% ($\$8,000 \div \$680,000$), while cost of merchandise decreased by 1.5% and salaries increased by 2.5%. The investigation should focus on salaries and possibly cost of merchandise since both changes are disproportionate to the decrease in sales.

145. The distinction between fixed costs and variable costs is an extremely important concept in managerial accounting. For each of the following phrases, indicate if the phrase is more closely related to fixed costs (FIX) or to variable costs (VAR) in reference to the number of units produced.

- _____ a. labor sewing garments in a garment factory
- _____ b. changes in total when the level of production changes
- _____ c. depreciation calculated by the straight line method
- _____ d. insurance
- _____ e. changes on a per unit basis when the level of production changes
- _____ f. direct materials
- _____ g. security at the plant
- _____ h. does not change in total when the level of production changes
- _____ i. ingredients used to manufacture a food product
- _____ j. does not change on a per unit basis when the level of production changes

Answer

- a. VAR
- b. VAR
- c. FIX
- d. FIX
- e. FIX
- f. VAR
- g. FIX
- h. FIX
- i. VAR
- j. VAR

146. In a period when Cubs' Company plans to make and sell 600,000 units, total fixed costs are expected to be \$1,200,000 and total variable costs are expected to be \$300,000. If the production level changes to 500,000 units, what is the expected total cost?

Answer

$$\$1,200,000 + [500,000 \times (\$300,000/600,000)] = \$1,450,000$$

147. In a period when Axis Company plans to make and sell 55,000 units, total fixed costs are expected to be \$110,000, and total variable costs are expected to be \$178,750. If the production level changes to 60,000 units, what is the expected cost per unit?

Answer

$$(\$178,750 / 60,000 \text{ units}) + (\$110,000 / 60,000 \text{ units}) = \$4.81$$

148. Identify each of the following statements with fixed costs or variable costs.

- _____ a. A cost that varies on a per-unit basis with changes in the activity level
- _____ b. A cost that remains constant per unit with changes in the level of business activity
- _____ c. A cost that remains the same in total with changes in the activity level
- _____ d. A cost that changes in total with changes in the activity level
- _____ e. A cost that decreases on a per-unit basis when activity levels increase

Answer

- a. fixed
- b. variable
- c. fixed
- d. variable
- e. fixed

149. Indicate whether each of the following costs is most likely a fixed cost or a variable cost for a car wash.

- _____ a. Rent on car wash building
- _____ b. Conveyor equipment depreciation
- _____ c. Salaries of car wash supervisor
- _____ d. Car wash labor
- _____ e. The cost of soap used in car washes

Answer

- a. Fixed
- b. Fixed
- c. Fixed
- d. Variable
- e. Variable

150. Reacher Tools plans to produce 10,000 band saws next year. The production budget for this level of activity is:

Labor (variable)	\$54,000
Materials costs	12,000
Packaging	10,000
Rent	18,000
Depreciation	6,000
Other fixed costs	4,000

Calculate the total cost and the cost per unit if the production level is changed to 12,000 units.

Answer

Variable cost per unit = $(\$54,000 + \$12,000 + \$10,000) / 10,000 = \7.60 per unit
 Total costs: $(\$7.60 \times 12,000) + \$28,000 = \$119,200$
 Unit cost: $\$119,200 / 12,000 = \9.93

151. Landers Company has fixed costs of \$40,000 and variable costs of \$100,000 during a period when 10,000 units were produced.

- a. Given the previous information about Paper Company, complete the following table:

	Cost per unit	This type of cost in total
Fixed costs		
Variable costs		
Total cost		

- b. Now assume that production changes to 12,500 units and complete the table:

	Cost per unit	This type of cost in total
Fixed costs		
Variable costs		
Total cost		

- c. What conclusions can you draw about the behavior of fixed cost per unit and variable cost per unit and fixed costs in total and variable costs in total when the level of production decreases?

Answer

a.

	Cost per unit	This type of cost in total
Fixed costs	\$4.00	\$40,000
Variable costs	\$10.00	\$100,000
Total cost	\$14.00	\$140,000

b.

	Cost per unit	This type of cost in total
Fixed costs	\$3.20	\$40,000
Variable costs	\$10.00	\$125,000
Total cost	\$13.20	\$165,000

- c. When the level of production decreases, fixed cost per unit increases because the fixed costs are spread among fewer units. Variable cost per unit remains the same when the level of production changes. When the level of production decreases, total fixed costs remain the same and total variable costs decrease.

152. Perkins Painting provides painting services for residential and commercial customers five days per week (Monday through Friday). Due to customer requests, the company owner, Pat Perkins, is considering staying open on Saturday. If the company stays open on Saturday, it can generate \$1,200 of daily revenue each day for 52 days per year. The incremental daily costs will be \$550 for labor, \$400 for paint, brushes, supplies, \$60 for transportation, and \$70 for office staff. These costs do not include a share of monthly rent totaling \$100, or a share of depreciation related to office equipment totaling \$150. Prepare an estimate of the opportunity cost.

Answer

Incremental revenue per day		\$1,200
Less incremental costs:		
Labor	\$550	
Paint, brushes, supplies	400	
Transportation	60	
Office staff	<u>70</u>	<u>1,080</u>
Net		<u>\$ 120</u>

Opportunity cost = \$120 per day × 52 days = \$6,240

153. Aruba Marriott is a five-star resort on the island of Aruba. Late on Friday, it had 10 of its 400 rooms available when the desk clerk received a call from the Hyatt Hotel which had made a booking error leaving five couples with no rooms even though their reservations were confirmed. Hyatt wants to send their customers to the Marriott at the same rate the guests would have been charged at the Marriott, \$225 per room, rather than Hyatt’s normal rate of \$280 per room.

- a. If Hyatt accepts the guests, how much will incremental revenue be?
- b. List 4 examples of incremental costs that Hyatt will incur if it accepts the guests.

Answer

- a. $\$225 \times 5 = \$1,125$
- b. Cost of soap and shampoo
 Cost of cleaning the room (maid labor costs, electricity for vacuum cleaner, cleaning products)
 Cost of cleaning towels and bedding

154. The manager of quality control at Zomed, a medical products company, purchased a new lab machine for \$44,000 two years ago during 2007. This year, a new machine, which is faster and more reliable than the current model, is available in the market. In deciding whether or not to purchase the new machine, should the manager consider

- a. The original cost of the old machine?
- b. The value at which the old machine can be sold in the used equipment market?

Answer

- a. No. The original cost is a sunk cost.
- b. Yes. This is an incremental cash inflow equal to the market value of the old machine that will result if the manager buys a new lab machine.

155. Hannah’s Honey is in the process of preparing a production cost budget for May. Actual costs in April for 4,000 jars of honey were:

Ingredients cost	\$4,000
Labor cost	2,000
Rent	800
Depreciation	1,200
Other fixed costs	<u>600</u>
Total	<u>\$8,600</u>

The company is currently producing and selling 60,000 jars of honey annually and each jar is sold for \$3.00. The company is considering lowering the price to \$2.75 for which management estimates this will increase sales to 68,000 jars. Ingredients and labor are the only variable costs.

- a. What is the incremental cost associated with producing an extra 8,000 jars of honey?
- b. What is the incremental revenue associated with the price reduction of \$0.25 per jar?
- c. Should Hannah's Honey lower the price of its honey?

Answer

- a. Variable cost per unit = $(\$4,000 + \$2,000) \div 4,000 = \$1.50$ per jar
 Additional cost: $\$1.50 \times 8,000 = \$12,000$
- b. Original Revenue $(60,000 \times \$3.00)$ \$180,000
 Revenue with price change $(68,000 \times \$2.75)$ 187,000
 Incremental revenue associated with price change \$ 7,000
- c. No. The cost increases by \$12,000 while the incremental revenue is only \$7,000.

156. Hannah's Honey is in the process of preparing a production cost budget for May. Actual costs in April for 4,000 jars of honey were:

Ingredients cost	\$4,000
Labor cost	2,000
Rent	800
Depreciation	1,200
Other fixed costs	<u>600</u>
Total	<u>\$8,600</u>

Ingredients and labor are the only variable costs.

- a. Using this information, prepare a budget for May. Assume that production will increase to 4,500 jars of honey, reflecting an anticipated sales increase related to a new marketing campaign.
- b. Calculate the actual cost per unit in April and the budgeted cost per unit in May. Explain why the cost per unit is expected to decrease.

Answer

- a.

Ingredient cost $(\$1 \times 4,500)$	\$4,500
Labor cost $(\$0.50 \times 4,500)$	2,250
Rent	800
Depreciation	1,200
Other fixed costs	<u>600</u>
Total	<u>\$9,350</u>
- b. April: $\$8,600 \div 4,000$ units = \$2.15
 May: $\$9,350 \div 4,500$ units = \$2.08
 (Unit cost declines because some costs are fixed and do not increase with increases in volume.)

157. Twist Company sells bottled beverages. During the past year, 600,000 bottles were produced and sold at a price of \$1.00 per bottle. Variable cost per unit was \$0.40 and total fixed costs were \$200,000. Twist would like to raise the price per unit to \$1.15, but feels that this will reduce sales to 575,000 bottles per year. Perform the appropriate incremental analysis of this situation. Clearly label the incremental revenues, incremental costs, and incremental profits. Should Twist raise its price?

Answer

Under the current system, revenues are \$600,000 and total costs are \$440,000, so profits are \$160,000. Under the proposed system, revenues are \$661,250 and total costs are \$430,000, so profits are \$231,250. The incremental revenues are \$61,250, incremental costs are (\$10,000), and incremental profits are \$71,250. According to this analysis, Twist should raise its price.

158. Power Company is currently producing 20,000 units per month, but has the capacity to produce 25,000 units without incurring any additional fixed costs. Selling price is \$5.00 per unit and variable cost per unit is \$2.00. Total fixed costs are \$35,000. Marathon Corporation approaches Power with a proposal to buy 4,000 units at a price of \$4.25 per unit. Prepare the incremental analysis that Power should use to evaluate this situation. Assuming that other customers are not affected, should Power accept Marathon's offer?

Answer

The additional revenue will be \$17,000 (\$4.25 times 4,000) and the additional cost will be \$8,000 (2.00 times 4,000) so the additional profit will be \$9,000. The offer should be accepted.

SHORT-ANSWER ESSAYS

159. What information is typically included in a performance report? How does an effective manager use this information?

Answer

Although there is no generally accepted method of preparing performance reports, these reports frequently involve a comparison of the current period performance with performance in a prior period or with planned (budgeted) performance. Effective managers use the principle of management by exception to investigate differences that appear to be significant and do not devote a great deal of attention to those areas where the departures from the prior period or budgeted amounts are minor.

160. Explain the principle of "management by exception."

Answer

Management by exception is a principle that effective managers use to flag areas that need closer attention and avoid those areas that are under control. Minor deviations from the planned performance are not investigated, so that resources can be used to investigate the major exceptions to the plan.

161. List and briefly describe four of the five differences between managerial accounting and financial accounting.

Answer

1. Financial accounting is aimed primarily at external users of accounting information, while managerial accounting is aimed primarily at internal users.
 2. Financial accounting is prepared in accordance with GAAP (generally accepted accounting principles), while conformance with GAAP is not required for managerial accounting reports.
 3. Financial accounting information is highly summarized, while managerial accounting reports may contain much more detail.
 4. Managerial accounting reports may contain a substantial amount of nonmonetary information.
 5. Financial accounting records what has happened in the past, while managerial accounting places considerable emphasis on the future.
162. A store manager is being evaluated. Explain the difference between controllable costs and noncontrollable costs as they should be used in this evaluation. Provide examples of costs which are controllable and those which are noncontrollable.

Answer

Controllable costs are those costs that the manager can influence, while noncontrollable costs are those that cannot be influenced by the manager. The manager can control labor costs, and perhaps advertising costs for the store, but is probably not able to control the insurance costs or property taxes for the building.

163. What is incremental analysis? When is it appropriate to use this technique?

Answer

Incremental analysis involves calculating the difference in revenues, difference in costs, and difference in profits between decision alternatives. It is appropriate to use this technique in approaching all business problems.

164. Performance measures influence the actions of managers. List two performance measures and the actions that are likely to result if these measures are implemented.

Answer

An example of a performance measure is the number of new customers for a business. If a manager is evaluated on this performance measure, the manager may ignore existing customers while trying to cultivate new customers.

Another example of a performance measure is the percentage of on-time deliveries. If a manager is evaluated on this measure, the quality of the output may suffer, as all efforts are concentrated on making the delivery on time.

165. Explain what an Economic Resource Planning System is and how it has reduced costs for businesses?

Answer

An ERP system reduces costs by integrating all facets of the business through maintaining databases that support production and procurement, as well as finance and accounting, customers, and human resources. Costs are reduced in all areas and transactions only need to be recorded once, ordering and paying becomes automated, and customer service improves.