Lesson 4-1 Practice Quiz

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# Lesson 4.1 Practice Quiz

*5 questions*

**Excellent!**

*Correct 1/1 points*

1. There are generally two types of income statements used to summarize revenues and costs (i.e., expenses). The financial accounting version focuses on \_\_\_\_\_\_\_, while the managerial accounting version focuses on \_\_\_\_\_\_\_\_.

* A. contribution margin; gross margin
* **B. gross margin; contribution margin**
* Correct Response   
  That is correct! The financial accounting version of the income statement focuses on the gross margin (revenue minus cost of goods sold), while the managerial accounting version focuses on the contribution margin (revenues minus variable costs).
* C. operating profit; contribution margin
* D. gross margin; operating profit

*Correct 1/1 points*

1. Revenues can be broken into which of the following two components?

* **A. Quantity sold and selling price**
* Correct Response   
  That is correct! Total revenues earned during an accounting period can be brokedn into the quantity of units sold and the selling price per unit
* B. Contribution margin and variable costs
* C. Selling price and quantity produced
* D. Quantity produced and cost per unit

*Correct 1/1 points*

1. Eli Company has the following information relating to its manufacturing and selling of lamps:

* Current selling price, per unit: $8.00
* Direct labor, per unit: $1.50
* Direct materials, per unit: $3.00
* Variable manufacturing overhead, per unit: $1.00
* Other variable cost, per unit: $1.25
* Fixed manufacturing overhead for lamps: $750,000
* Other fixed costs for lamps: $400,000.

When calculating breakeven point the target operating income should be set to:

* **A. $0**
* Correct Response   
  That is correct! To determine the break-even point, the target operating income is $0 (i.e., where total costs are exactly equal to revenues).
* B. Cannot determine using information given
* C. $400,000
* D. $750,000

*Correct 1/1 points*

1. Eli Company has the following information relating to its manufacturing and selling of lamps:

* Current selling price, per unit: $8.00
* Direct labor, per unit: $1.50
* Direct materials, per unit: $3.00
* Variable manufacturing overhead, per unit: $1.00
* Other variable cost, per unit: $1.25
* Fixed manufacturing overhead for lamps: $750,000
* Other fixed costs for lamps: $400,000

How many lamps would XYZ Company need to manufacture and sell to have net income (before taxes) of $0? Of $350,000?

* A. 920,000 lamps; 1,440,000 lamps
* **B. 920,000 lamps; 1,200,000 lamps**

Correct Response   
That is correct! The break-even point is calculated as follows:  
  
Total fixed costs / Contribution margin per unit  
$750,000 + 400,000 / (8.00 – 1.50 – 3.00 – 1.00 – 1.25) = 920,000 lamps  
  
To calculate the unit needed to reach $350,000 net income before taxes, you add the target amount to the fixed costs in the numerator of the equation:  
$750,000 + 400,000 + 350,000 / (8.00 – 1.50 – 3.00 – 1.00 – 1.25) = 1,200,000 lamps

* C. 600,000 lamps; 880,000 lamps
* D. 300,000 lamps; 440,000 lamps

*Correct 1/1 points*

1. Ryan Corporation has the following information relating to its

* manufacturing and selling of cakes:
* Average current selling price: $14.00
* Average variable cost of cakes: $6.00
* Fixed yearly costs: $240,000
* The income tax rate is 35%

If Ryan Corporation had net income before tax of $90,000, what amountof income after tax would they have? How many cakes wouldgenerate this income level?

* A. $45,000; 41,250 cakes
* **B. $58,500; 41,250 cakes**

Correct Response   
That is correct! The net income after tax  
  
is calculated as follows:  
$90,000 – (.35 x 90,000) = $58,500  
  
The total amount of cakes required to reach $58,500 in net income after tax, or $90,000 before tax, is computed as follows:  
($240,000 + 90,000) / (14.00 – 6.00) = 41,250 cakes

* C. $60,000; 41,250 cakes
* D. $31,500; 45,000 cakes

*Correct 1/1 points*

1. CVP analysis is best described as which of the following

* **A. Analytic tool useful for asking "what-if" questions**

Correct Response   
That is correct! CVP analysis allows managers to ask "what-if" type questions. Put another way, CVP analysis helps managers project outcomes of potential decisions, so that the decision process is more informed.

* B. Tool used to project sales
* C. Regulatory standard set by the Managerial Accounting Board
* D. A more refined costing system

*Correct 1 / 1 points*

1. Total fixed cost should NOT be broken into a per unit amount because this number fluctuates with the volume of units produced, and can cause confusion in cost estimation.

* **A. TRUE**

Correct Response   
That is correct! Fixed cost per unit estimates are only applicable to specific production quantities. Relying on such estimates to make projections about a different level of production is inconsistent, and can cause confusion in decision-making.

* B. FALSE

*Correct 0/1 points*

1. Ryan Corporation has the following information relating to its manufacturing and selling of cakes:

* Average current selling price: $14.00
* Average variable cost of cakes: $6.00
* Fixed yearly costs: $240,000
* The income tax rate is 35%

If Ryan Corporation wanted to make net income after tax of $100,000,how many cakes would they have to produce and sell?

* A. 49,231 Cakes
* B. 45,333 Cakes
* **C. 54,443 Cakes**

Incorrect Response   
Unfortunately, that is incorrect. The number of cakes required to reach the desired net income after tax is as follows:  
  
First, we need to remove the effect of taxes, yielding net income before taxes:   
$100,000 / (1 – .35) = $153,846 (rounded)  
  
Then, compute the quantity required to reach the desired net income before taxes:  
($240,000 + 153,846) / ($14 – 6) = 49,231 cakes (rounded)

* D. 57,300 Cakes