# Lesson 1.3 Practice Quiz

**3/3** points earned (100%)

Excellent!

Retake

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Correct

1 / 1 points

1. Teddy, Inc. sells donuts. They pride themselves on fresh ingredients and products, and therefore bake the donuts fresh each morning. The average selling price is $1 per donut. Average variable costs are $.40 per donut. When producing at full capacity – 1,000 donuts per day – the fixed cost is $.10 per donut. Just before closing, a tour bus arrives and the driver offers to purchase 100 donuts that are already made for $30. Although he is just about to lock up, Teddy's manager refuses the offer, saying the price doesn't even cover his costs.

True or false: Teddy's manager made a mistake in refusing the offer.

1. **True**

**Correct Response**

Correct! Teddy's manager refused an offer based on sunk costs.

1. False

Correct

1 / 1 points

2. Replacing equipment is always less expensive.

1. True
2. **False**

**Correct Response**

Correct! Replacing equipment may be more costly or less costly than retaining equipment.

Correct

1 / 1 points

3. Porl Corp. makes an unassembled table that sells for $50. Product costs are $20 per table. The product line manager suggests that Porl Corp. should instead sell an assembled table, as revenues will be higher. Specifically, the market price for this table is $60. The cost of assembly is $11. Which of the following statements is true?

1. **The company should not sell the assembled table because the $10 in incremental revenue is less than the $11 in incremental costs.**

**Correct Response**

Correct! The incremental costs and revenues associated with producing the assembled table actually reduce the profit per table.

1. The company should sell the assembled table because revenues per table are $10 higher.
2. The company should not sell the assembled table because the $11 in costs per table is more than half of the cost of production.