Close

# **Module 1 Quiz**

12 questions

1 / 1 points

1. Relevant information reflects what differs (or potentially differs) across decision alternatives.

1. **True**
2. False

1 / 1 points

2. Sunk costs are often deemed irrelevant to a decision because \_\_\_\_\_.

1. They are avoidable.
2. They only provide you information about the next best option.
3. They are easy to ignore.
4. **They do not change between decision alternatives.**

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3. Which of the following best reflects an opportunity cost?

1. Direct materials costs
2. Contracted salaries already paid
3. Rent paid for a one-year lease on a factory
4. **The potential sales price of equipment that is retained**

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4. Which of the following relate to common mistakes made in business decisions?

1. Total fixed costs
2. **Allocated fixed costs**
3. Traceable fixed costs
4. Avoidable fixed costs

5. A company incurs per-unit costs of $11 in variable costs and $4 in fixed costs to produce its main product, which sells for $24. A new customer in the market offers to purchase 2,500 units at $16 each. If the special offer is accepted and produced with capacity that is projected to be used to sell to other customers, what costs are relevant to the decision?

1. $4 per unit or $10,000 in total costs
2. $15 per unit or $37,500 in total costs
3. **$11 per unit or $27,500 in total costs**
4. **$9 per unit or $22,500 in total costs**

1 / 1 points

6. Robert Company is considering buying an input to its main product from an outside supplier, rather than producing the input itself. If Robert Company purchases the part elsewhere, it can use the capacity currently being used to produce the input to generate additional profit of $22,000.

When considering this decision, Robert Co. managers should:

1. Consider the $22,000 as a cost of purchasing the input from the outside supplier.
2. **Consider the $22,000 as a cost of making the input.**
3. Include the $22,000 as both a cost of making the input and a benefit of purchasing the input from the outside supplier.
4. Ignore the $22,000.

1 / 1 points

7. Manufacturing costs saved when considering purchasing – as opposed to producing – an input are irrelevant to the decision.

1. True
2. **False**

1 / 1 points

8. When considering whether to sell a product as currently designed, or to process it further into a different version, a manager can ignore the incremental fixed costs.

1. True
2. **False**

1 / 1 points

9. Simon Corp. makes an unassembled chair that sells for $20. Product costs are $8 per chair. The product line manager suggests that Simon Corp. should instead sell an assembled chair, as revenues will be higher. Specifically, the market price for this chair is $25. The cost of assembly is $4. Which of the following statements is true?

1. The company should sell the assembled chair because the costs of assembly are irrelevant.
2. The company should not sell the assembled chair because costs per chair are $4 higher.
3. **The company should sell the assembled chair because the $5 in incremental revenue is greater than the $4 in incremental costs.**
4. The company should sell the assembled chair because revenues per chair are $5 higher.

1 / 1 points

10. 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.

Considering a financial perspective, which of the following is true?

1. Teddy's manager is incorrect, as the opportunity cost of producing donuts is irrelevant.
2. **Teddy's manager made a mistake as the cost of already made donuts is sunk.**
3. Teddy's manager is correct, as he would lose money on the sale.
4. Teddy's manager is correct, as the fixed costs of production are too high.

1 / 1 points

11. Boris Company has multiple business units. Unit A has the following information: sales revenue is $200,000; variable expenses are $140,000; fixed expenses are $100,000. Fixed expenses – which are mostly represented by shared capacity costs (e.g., rent, depreciation, etc.) - are allocated evenly to the business units.

What is the effect on Boris Company as a whole if Unit A is eliminated?

1. **Total profit will increase by $40,000.**
2. Total profit will decrease by $60,000.
3. Total profit will decrease by $40,000.
4. Total profit will not change.

12. In a decision to replace or retain equipment, the difference between the original purchase price and the accumulated depreciation of the old equipment is \_\_\_\_\_\_.

1. **An opportunity cost**
2. Greater than $0
3. A sunk cost
4. Relevant

13. An opportunity cost is the value of the best option a decision maker has.

1. **True**
2. False

14. Why does fixed cost per unit information sometimes lead to mistakes in business decisions?

1. Fixed costs per unit look like variable costs.
2. Fixed costs per unit create opportunity costs.
3. **Fixed costs per unit look less important than out-of-pocket costs.**
4. **Fixed costs per unit make a product or department appear unprofitable.**

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15. In a make or buy decision, which of the following are relevant costs?

1. Manufacturing costs saved
2. Opportunity costs
3. Purchase price of the inputs
4. **All of the above**

1 / 1 points

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

1. The company should sell the assembled chair because the total contribution margin increases.
2. The company should not sell the assembled chair because the $11 in costs per table is more than half of the cost of production.
3. The company should sell the assembled chair because revenues per table are $10 higher.
4. **The company should not sell the assembled chair because the $10 in incremental revenue is less than the $11 in incremental costs.**

17. Replacing equipment is always more expensive.

1. **True**
2. False

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