



**BANGOR UNIVERSITY
AND
MANAGEMENT DEVELOPMENT INSTITUTE OF SINGAPORE
IN TASHKENT**

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Module Code and Title	: MASB2507 Managerial Accounting
Module Leader	: Mr Manek
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SECTION A

1) Management accounting _____.

- A) focuses on estimating future revenues, costs, and other measures to forecast activities and their results
- B) provides information about the company as a whole
- C) reports information that has occurred in the past that is verifiable and reliable
- D) provides information that is generally available only on a quarterly or annual basis

Answer: A

2) Managers use management accounting information to _____.

- A) help external users such as investors, banks, regulators, and suppliers
- B) communicate, develop, and implement strategies
- C) communicate a firm's financial position to investors, banks, regulators, and other outside parties
- D) ensure that financial statements are consistent with the SEC rules

Answer: B

3) Management accounting information typically includes _____.

- A) tabulated results of customer satisfaction surveys
- B) the cost of producing a product
- C) the percentage of units produced that are defective
- D) All of these answers are correct.

Answer: D

4) Comparing budgeted costs to actual costs helps managers to improve _____.

- A) coordination
- B) control
- C) implementation
- D) planning

Answer: B

5) Classifying a cost as either direct or indirect depends upon _____.

- A) the behavior of the cost in response to volume changes
- B) whether the cost is expensed in the period in which it is incurred
- C) whether the cost can be easily traced with the cost object
- D) whether a cost is fixed or variable

Answer: C

6) When 20,000 units are produced, fixed costs are \$16 per unit. Therefore, when 16,000 units are produced, fixed costs will _____.

- A) increase to \$20 per unit
- B) remain at \$16 per unit
- C) decrease to \$10 per unit
- D) total \$160,000

Answer: A

Explanation: A) Fixed costs are \$320,000 ($\$16 \times 20,000$ units). Dividing \$320,000 by 16,000 units = \$20.

7) Eigen Manufacturing Corp. provided the following information for last month:

Sales	\$40,000
Variable costs	14,000
Fixed costs	<u>10,000</u>
Operating income	<u>\$16,000</u>

If sales reduce to half of the amount in the next month, what is the projected operating income?

- A) \$15,000
- B) \$6,000
- C) \$16,000
- D) \$3,000

Answer: D

Explanation: D) Projected operating income = $(\$40,000 / 2) - (\$14,000 / 2) - \$10,000 = \$3,000$

8) Grip Manufacturing currently produces 1,000 tires per month. The following per unit data for 1,000 tires apply for sales to regular customers:

Direct materials	\$30
Direct manufacturing labor	5
Variable manufacturing overhead	8
Fixed manufacturing overhead	<u>12</u>
Total manufacturing costs	<u>\$55</u>

The plant has capacity for 3,000 tires and is considering expanding production to 2,000 tires. What is the total cost of producing 2,000 tires?

- A) \$110,000
- B) \$98,000
- C) \$68,000
- D) \$88,000

Answer: B

Explanation: B) Total cost of producing 2,000 tires = $[(\$30 + \$5 + \$8) \times 2,000 \text{ units}] + (\$12 \times 1,000 \text{ units}) = \$98,000$

9) Pacific Company sells only one product for \$11 per unit, variable production costs are \$3 per unit, and selling and administrative costs are \$1.50 per unit. Fixed costs for 10,000 units are \$5,000. The operating income is _____.

- A) \$6.50 per unit
- B) \$6.00 per unit
- C) \$5.50 per unit
- D) \$5.00 per unit

Answer: B

Explanation: B) Operating income = $\$11 - \$3 - \$1.50 - (\$5,000 / 10,000) = \$6.00$

10) Winnz sells 8,000 units resulting in \$100,000 of sales revenue, \$35,000 of variable costs, and \$45,000 of fixed costs. To achieve \$150,000 in operating income, sales must total _____.

- A) \$440,000
- B) \$160,000
- C) \$130,000
- D) \$300,000

Answer: D

Explanation: D) $(\$150,000 + \$45,000) / 65\% = \$300,000$ in sales

11) Star Jewelry sells 500 units resulting in \$75,000 of sales revenue, \$28,000 of variable costs, and \$18,000 of fixed costs.

2) Breakeven point in units is _____.

- A) 196 units
- B) 203 units
- C) 185 units
- D) 192 units

Answer: D

Explanation: D) Contribution margin per unit = $(\$75,000 - \$28,000) / 500 = \$94$

Breakeven point = $\$18,000 / \$94 = 191.49$ units. Hence breakeven is approximately 192 units.

12) Sales total \$400,000 when variable costs total \$300,000 and fixed costs total \$50,000. The breakeven point in sales dollars is _____.

- A) \$200,000
- B) \$120,000
- C) \$170,000
- D) \$210,000

Answer: A

Explanation: A) Contribution margin percentage = $(\$400,000 - \$300,000) / \$400,000 = 25\%$;

BE sales = $\$50,000 / 0.25 = \$200,000$

13) The breakeven point decreases if _____.

- A) the variable cost per unit increases
- B) the total fixed costs decrease
- C) the contribution margin per unit decreases
- D) the selling price per unit decreases

Answer: B

14) If unit outputs exceed the breakeven point _____.

- A) there will be an increase in fixed costs
- B) total sales revenue will exceed fixed costs
- C) total sales revenue will exceed variable costs
- D) there will be a profit

Answer: D

15) A decision model involves a(n) _____.

- A) informal method of making a choice at the lower level management using sensitivity analysis
- B) formal method of making a choice that often involves both quantitative and qualitative analyses
- C) informal method of making a choice which is discussed in detailed in the financial reports
- D) formal method of making a choice at the lower level management using advanced management techniques such as balance scorecard

Answer: B

16) Place the following steps from the five-step decision process in order:

- A = Obtain information including historical costs
- B = Evaluate performance to provide feedback
- C = Make decisions choosing among alternatives
- D = Make predictions about the future
- E = Identify the problem and uncertainties

- A) A, E, D, B, C
 - B) C, D, E, A, B
 - C) E, A, D, C, B
 - D) D, C, B, A, E
- Answer: C

17) Ratzlaff Company has a current production level of 20,000 units per month. Unit costs at this level are:

Direct materials	\$0.25
Direct labor	0.40
Variable overhead	0.15
Fixed overhead	0.20
Marketing - fixed	0.20
Marketing/distribution - variable	0.40

Current monthly sales are 18,000 units. Jim Company has contacted Ratzlaff Company about purchasing 1,500 units at \$2.00 each. Current sales would NOT be affected by the one-time-only special order, and variable marketing/distribution costs would NOT be incurred on the special order. What is Ratzlaff Company's change in operating profits if the special order is accepted?

- A) \$400 increase in operating profits
- B) \$400 decrease in operating profits
- C) \$1,800 increase in operating profits
- D) \$1,800 decrease in operating profits

Answer: C

Explanation: C) Manufacturing cost per unit = $\$0.25 + \$0.40 + \$0.15 = \$0.80$ $1,500 \times (\$2.00 - \$0.80) = \$1,800$ increase

18) Contrafic's Kitchens is approached by Mr. Louis Cifer, a new customer, to fulfill a large one-time-only special order for a product similar to one offered to regular customers. The following per unit data apply for sales to regular customers:

Direct materials	\$546
Direct labor	360
Variable manufacturing support	54
Fixed manufacturing support	<u>120</u>
Total manufacturing costs	1,080
Markup (60%)	<u>648</u>
Targeted selling price	<u>\$1,728</u>

Contrafic's Kitchens has excess capacity. Mr. Cifer wants the cabinets in cherry rather than oak, so direct material costs will increase by \$60 per unit. The average marketing cost of Contrafic's Kitchens is \$180 per order.

For Contrafic's Kitchens, what is the full cost of the one-time-only special order?

- A) \$1,020
- B) \$1,140
- C) \$1,080
- D) \$1,320

Answer: B

Explanation: B) Full cost = \$546 + \$360 + \$54 + \$120 + \$60 = \$1,140

20) Black Forrest manufactures rustic furniture. The cost accounting system estimates manufacturing costs to be \$180 per table, consisting of 80% variable costs and 20% fixed costs. The company has surplus capacity available. It is Back Forrest's policy to add a 50% markup to full costs.

Black Forrest is invited to bid on a one-time-only special order to supply 100 rustic tables. What is the lowest price Black Forrest should bid on this special order?

- A) \$12,600
- B) \$14,400
- C) \$18,000
- D) \$23,000

Answer: B

Explanation: B) $\$180 \times 80\% \times 100 \text{ tables} = \$14,400$

21) Which of the following is true of relevant information?

- A) All fixed costs are relevant.
- B) Future revenues and expenses are relevant.
- C) Past costs are not relevant.
- D) All fixed costs are not relevant.

Answer: C

Diff: 2

Objective: 2

AACSB: Analytical thinking

22) Quantitative factors _____.

- A) include financial information, but not nonfinancial information
- B) can be expressed in monetary terms
- C) are always relevant when making decisions
- D) include employee morale

Answer: B

QUESTION 23 Gavin and Alex, baseball consultants, are in need of a microcomputer network for their staff. They have received three proposals, with related facts as follows:

	Proposal A	Proposal B	Proposal C
Initial investment in equipment	\$90,000	\$90,000	\$90,000
Annual cash increase in operations:			
Year 1	80,000	45,000	90,000
Year 2	10,000	45,000	0
Year 3	45,000	45,000	0
Salvage value	0	0	0
Estimated life	3 yrs	3 yrs	1 yr

The company uses straight-line depreciation for all capital assets.

Required:

a. Compute the payback period, net present value, and accrual accounting rate of return with initial investment, for each proposal. Use a required rate of return of 14%.

b. Rank each proposal 1, 2, and 3 using each method separately. Which proposal is best? Why?

Answer:

a.

Payback Method

<i>Payback for Proposal A:</i>	Year 1	\$80,000
	Year 2	<u>10,000</u>
Payback is 2 years		<u>\$90,000</u>

<i>Payback for Proposal B:</i>	Year 1	\$45,000
	Year 2	<u>45,000</u>
Payback is 2 years		<u>\$90,000</u>

<i>Payback for proposal C:</i>	Year 1	<u>\$90,000</u>
Payback is 1 year		

Net Present Value:

<i>Proposal A:</i>	Predicted Cash Flows	Year(s)	PV Factor	PV of Cash Flows
Investment	\$(90,000)	0	1.000	\$(90,000)
Annual operations				
Year 1	80,000	1	0.877	70,160
Year 2	10,000	2	0.769	7,690
Year 3	45,000	3	0.675	<u>30,375</u>
Net present value				<u>\$18,225</u>

<i>Proposal B:</i>	Predicted Cash Flows	Year(s)	PV Factor	PV of Cash Flows
Investment	\$(90,000)	0	1.000	\$(90,000)
Annual operations				
Year 1	45,000	1	0.877	39,465
Year 2	45,000	2	0.769	34,605
Year 3	45,000	3	0.675	<u>30,375</u>
Net present value				<u>\$14,445</u>

<i>Proposal C:</i>	Predicted Cash Flows	Year(s)	PV Factor	PV of Cash Flows
Investment	\$(90,000)	0	1.000	\$(90,000)
Annual operations				
Year 1	90,000	1	0.877	<u>78,930</u>
Net present value				<u>\$11,070</u>

b. *Summary:*

<i>Method</i>	Proposal A	Proposal B	Proposal C
Payback method ranks	2	2	1
Net present value	1	2	3

Even though Proposal C is Number 1 for payback, it comes in last with the other two methods. Because the net present value method takes into account the time value of money and the other proposals are less comprehensive, Proposal A would be the best alternative.

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