

CHAPTER 1

Managerial Accounting in the Information Age Summary of Questions by Objectives and Bloom's Taxonomy

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	11.	1	K	21.	2	K	31.	4	K	41.	5	C
2.	1	K	12.	1	K	22.	2	K	32.	4	K	42.	5	K
3.	1	K	13.	1	K	23.	2	K	33.	4	K	43.	5	K
4.	1	K	14.	1	K	24.	2	K	34.	4	K	44.	5	K
5.	1	K	15.	1	K	25.	2	K	35.	4	K	45.	5	K
6.	1	K	16.	1	K	26.	3	K	36.	4	K	46.	5	K
7.	1	C	17.	1	K	27.	3	K	37.	4	K	47.	5	K
8.	1	K	18.	2	K	28.	3	K	38.	4	K	48.	5	K
9.	1	K	19.	2	K	29.	3	C	39.	4	K			
10.	1	K	20.	2	K	30.	3	K	40.	4	K			
Multiple Choice Questions														
49.	1	K	68.	2	C	87.	2	AP	106.	3	K	125.	5	K
50.	1	K	69.	2	K	88.	2	AP	107.	3	C	126.	5	K
51.	1	K	70.	2	K	89.	2	AP	108.	3	C	127.	5	K
52.	1	C	71.	2	K	90.	2	AP	109.	3	AP	128.	2	AP
53.	1	C	72.	2	K	91.	2	K	110.	3	AP	129.	2	AP
54.	1	K	73.	2	K	92.	2	AP	111.	3	AP	130.	2	AP
55.	1	K	74.	2	K	93.	2	AP	112.	3	AP	131.	2	AP
56.	1	K	75.	2	C	94.	2	AP	113.	3	AP	132.	2	AP
57.	1	K	76.	2	C	95.	2	AP	114.	3	AP	133.	2	AP
58.	1	K	77.	2	K	96.	2	AP	115.	3	K	134.	2	AP
59.	1	K	78.	2	K	97.	2	Ap	116.	4	K	135.	3	AP
60.	1	K	79.	2	C	98.	2	AP	117.	4	K	136.	3	AP
61.	1	K	80.	2	C	99.	3	AP	118.	4	K	137.	2	AP
62.	1	K	81.	2	K	100.	3	AP	119.	5	K	138.	2	AP
63.	2	K	82.	2	AP	101.	3	AP	120.	5	K	139.	2	AP
64.	2	K	83.	2	AP	102.	3	K	121.	5	K	140.	2	AP
65.	2	AP	84.	2	AP	103.	3	K	122.	5	K	141.	2	AP
66.	2	C	85.	2	AP	104.	3	K	123.	5	K	142.	2	AP
67.	2	C	86.	2	AP	105.	3	K	124.	5	K			
Matching														
143.	1,2,3,4	K												
Exercises														
144.	1	K	147.	2	AP	150.	2	AP	153.	2,3	AP	156.	2,3	AP
145.	2	K	148.	2	K	151.	2,3	AP	154.	2,3	AP	157.	2,3	AN
146.	2	AP	149.	2	K	152.	2	AP	155.	1,2	AP	158.	2,3	AN
Challenge Exercises														
159.	2,3	AN	160.	2,3	AN									
Short-Answer Essays														
161.	1	K	163.	1	C	165.	3	C	167.	4	C			
162.	1	K	164.	2	C	166.	3	C						

TRUE-FALSE STATEMENTS

1. Financial 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 reporting information to shareholders.
3. A thorough understanding of managerial accounting is essential to be an effective manager.
4. A production cost budget provides details of planned production amounts and the cost of resources needed for production.
5. Budgets can be used to communicate a company's goals to employees.
6. Only amounts that can be expressed in dollars and cents can be used in preparing budgets.
7. A favorable evaluation of an operation indicates that the manager of that operation is performing adequately.
8. Performance reports are used for control purposes.
9. Performance reports, like other managerial accounting reports, must follow GAAP.
10. Budgets show comparisons of current period performance to the planned performance.
11. Management by exception requires managers to investigate every difference between actual and budgeted costs that causes profit to be less than budgeted.
12. Decisions to reward or punish managers are part of the planning and control process.
13. Managerial accounting is directed at internal users of accounting information.
14. Financial accounting must follow generally accepted accounting principles, whereas managerial accounting stresses information that is useful to managers.
15. Managerial accounting may present more detailed information than financial accounting.
16. Managerial accounting stresses that the information provided should be useful to decision makers such as creditors and shareholders.
17. Financial accounting is concerned with presenting results of past transactions, while managerial accounting places considerable emphasis on the future.
18. Variable costs in total increase or decrease in proportion with changes in the level of business activity.
19. Equipment depreciation is generally a controllable cost for a factory department supervisor.
20. Fixed cost per unit remains the same even though there is a change in the number of units produced.
21. Variable cost per unit remains constant when the number of units produced changes.

22. Sunk costs are never a consideration in incremental analysis.
23. Opportunity costs are the value of benefits forgone when one alternative is selected over another.
24. Indirect costs are directly traceable to a product, activity, or department.
25. Since a manager can influence noncontrollable costs, they should be considered when evaluating a manager's performance.
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. Incremental analysis is the appropriate way to approach the solution to all business problems.
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 increase due to a special order are not considered as incremental.
31. Managerial accounting is a key provider of information that impacts the information age.
32. Firm value is created when the value to the customer of receiving products and services exceeds the cost of these activities,
33. One aspect of the value chain involves information flows between a company and its customers.
34. Businesses sometimes share sales databases with suppliers so suppliers can respond more quickly.
35. Enterprise resource planning systems focus on managing a variety of customer interactions.
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) involve activities between companies and its suppliers in an effort to enhance production and delivery of goods to customers.
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. Walmart and Procter & Gamble are two companies that collaborate in the use of Supply Chain Management (SCM).
41. Managers that are able to recognize all ethical dilemmas have the most profitable businesses.

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42. A good code of ethics eliminates potential unethical behavior.
43. The U.S. government has charged the Institute of Management Accountants with primary responsibility for developing ethics laws that businesses must follow.
44. The Sarbanes-Oxley Act requires that companies provide relevant managerial accounting information to decision-makers.
45. In most organizations, the controller is the top managerial accountant.
46. The treasurer usually reports to the controller.
47. The controller is responsible for preparing reports for planning and evaluating company activities.
48. The treasurer has custody of cash and funds invested in marketable securities.

Answers to True-False

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

MULTIPLE CHOICE

49. Managerial accounting stresses accounting concepts and procedures that are relevant to preparing reports for
- A. investors and banks.
 - B. internal users of accounting information.
 - C. shareholders and creditors.
 - D. the Securities and Exchange Commission (SEC).
50. The goal of managerial accounting is to provide information that managers need for
- A. planning, control, and financial reporting.
 - B. control, evaluation, and financial reporting.
 - C. planning, control, and decision making.
 - D. preparing reports for external users.
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 current period performance results may differ from the company's budget for that period?
- 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. Which one of the following is true as it relates to the management function of control?
- A. It is achieved by evaluating the performance of managers.
 - B. It is achieved by evaluating the operations for which a manager is responsible.
 - C. It is necessary only when performance is less than expected.
 - D. It is achieved by evaluating the performance of managers and the operations for which they are responsible.
54. Which one of the following is the last step in the planning and control process?
- A. Implement a plan.
 - B. Construct a 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 performance with
- A. a competing company's performance.
 - B. shareholders' expected level of performance.
 - C. industry standards.
 - D. performance in a prior period or budgeted performance.
56. When using management by exception, a difference between actual costs and budgeted costs
- A. should be investigated if the amount is large.
 - B. indicates that the planned cost was poorly estimated.
 - C. indicates that the manager is doing a poor job.
 - D. should be ignored if it increases profit.

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57. Wilson Company's managers investigate departures from the budget that appear to be significant. What principle is being followed?

- A. Small amounts do not matter
- B. Management by exception
- C. Incremental analysis
- D. You get what you measure

58. Below is a performance report that compares budgeted and actual profit of Atlanta Enterprises for the month of June:

	Budget	Actual	Difference
Sales	\$182,000	\$180,000	(\$2,000)
Less:			
Cost of ingredients	145,000	141,000	4,000
Salaries	<u>24,000</u>	<u>23,000</u>	<u>1,000</u>
Controllable profit	<u>\$ 13,000</u>	<u>\$ 16,000</u>	<u>\$ 3,000</u>

In evaluating the department in terms of its changes in sales and expenses, what will be most important to investigate?

- A. Sales
- B. Cost of ingredients
- C. Salaries
- D. Debtors

59. Managerial accounting

- A. is primarily directed at external users of accounting information.
- B. is required by taxing authorities such as the IRS.
- C. must follow GAAP.
- D. focuses on future performance.

60. The fundamental difference between managerial and financial accounting is that

- A. all financial accounting information is audited by Certified Public Accountants whereas managerial accounting information is audited by the IMA.
- B. managerial accounting is concerned principally with budgets, whereas financial accounting is concerned with a wider range of the organization's activities.
- C. managerial accounting provides information for decision-makers within the organization, whereas financial accounting provides information for individuals and institutions external to the organization.
- D. 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 a difference between financial accounting and managerial accounting?

- A. Managerial accounting is primarily concerned with reporting the past, while financial accounting is more concerned with future decisions that external users may need to make.
- B. Managerial accounting uses monetary and nonmonetary information, whereas financial accounting reports monetary information.
- C. Managerial accounting is primarily concerned with providing information for external users while financial accounting is concerned with internal users.
- D. Financial accounting is rather detailed, while managerial accounting is more summarized.

62. Which one of the following is most likely to make use of Ralston Enterprises' managerial accounting information?
- A. The IRS
 - B. An individual contemplating an investment in Ralston Enterprises
 - C. A company that is one of Ralston's main suppliers
 - D. The production manager of Ralston's plant in Georgia
63. Which of the following costs will change when the level of business activity changes?
- A. Total fixed costs
 - B. Variable cost per unit
 - C. A company's total costs
 - D. Sunk cost
64. Variable cost per unit
- A. increases when the number of units produced increases.
 - B. does not change when the number of units produced increases.
 - C. decreases when the number of units produced increases.
 - D. decreases when the number of units produced decreases.
65. Kilwin's Candies produced and sold 600 boxes of chocolate covered popcorn last month and had total variable costs of \$2,100 that reflected the costs of chocolate and popcorn (ingredients). Each box of popcorn sells for \$12.00. If production and sales are expected to increase by 10% next month, which of the following statements is true?
- A. Total variable costs are expected to be \$1,785
 - B. Variable cost per unit is expected to be \$3.50
 - C. The incremental cost per unit is expected to be \$0.35
 - D. Unit variable costs are expected to be \$2.10
66. A company has a cost that is \$3.00 per unit at a volume of 9,000 units and \$3.00 per unit at a volume of 11,000 units. What type of cost is this?
- A. Fixed
 - B. Variable
 - C. Sunk
 - D. Noncontrollable
67. Which of the following is most likely to be a fixed cost?
- A. Cost of wheels for a lawn mower manufacturer
 - B. Rent on a factory building
 - C. Cost of labor for cashiers at a retail store
 - D. Supplies used by the housekeeping staff that cleans hotel rooms
68. Bagel Time produced and sold 2,500 bagels last month and incurred fixed costs totaling \$8,000. If production and sales are expected to decrease 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.

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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 that are **not** incremental to present decisions are
- A. fixed costs.
 - B. sunk costs.
 - C. opportunity costs.
 - D. variable costs.
71. A sunk cost is a cost
- A. expected to be incurred in the future 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 activity changes.
 - D. incurred in the past that is not relevant for future decisions.
72. Sunk costs
- A. can be incremental or not incremental, depending on the decision to be made.
 - B. include all incremental costs to management decisions.
 - C. are costs that cannot be directly traced to a product, activity, or department.
 - D. None of these answer choices are correct.
73. Opportunity costs are
- A. considered to be fixed costs in the short-term.
 - B. another term for sunk costs.
 - C. costs that are controlled by most effective managers.
 - D. the value of benefits forgone when one decision alternative is selected over another.
74. Which of the following is a benefit given up when one decision alternative is selected over another?
- A. Sunk cost
 - B. Controllable cost
 - C. Opportunity cost
 - D. Incremental cost
75. You own a car and are trying to decide whether 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 Europe 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 toothpaste and soap that you need for the next few months
 - D. The cost of your meals for the last week
76. A retailer purchased some trendy clothes that have gone out of style and must be marked down to 60% 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)
- fixed cost.
 - managerial cost.
 - opportunity cost.
 - direct cost.
78. Which of the following statements regarding direct and indirect costs is **true**?
- Direct costs are always variable and indirect costs are always fixed.
 - Sunk costs are always direct, and opportunity costs are always fixed.
 - The distinction between a direct and indirect cost depends on the product, activity, or department to which the cost pertains.
 - 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 in a college?
- The cost of the paper that is given as handouts in the class
 - The cost of the electricity to light the classroom
 - The cost of the registration system
 - The cost of the financial aid department of the college
80. Which of the following is likely to be a noncontrollable cost of a department supervisor?
- Labor in the department
 - Materials used in the department
 - Insurance on the plant
 - Overtime premium pay earned by those working in the department
81. On which of the following costs should a manager **not** be evaluated?
- Noncontrollable costs
 - Opportunity costs
 - Fixed costs
 - Variable costs
82. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. How much is the budgeted variable cost per unit?

- \$0.35
- \$0.45
- \$0.80
- None of these answer choices are correct.

83. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. What is the budgeted total variable cost?

- A. \$8,400
 - B. \$9,500
 - C. \$10,400
 - D. \$10,800
84. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. What is the budgeted total fixed cost?

- A. \$7,300
 - B. \$2,400
 - C. \$8,400
 - D. \$10,800
85. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. What is the budgeted fixed cost per unit?

- A. \$0.35
- B. \$0.80
- C. \$0.10
- D. \$0.17

86. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. What is Hurricane Wings' budgeted profit?

- A. \$8,400
 B. \$19,200
 C. \$10,800
 D. \$13,200
87. Hurricane Wings has budgeted the following costs for a month in which 24,000 wings will be cooked and sold.

Wings, breading, and sauce	\$4,900
Direct labor (Variable)	3,500
Rent	1,100
Depreciation	900
Other fixed costs	400

Each wing sells for \$0.80 each. How much will Hurricane Wing's profit increase if 100 more wings were sold?

- A. \$80.00
 B. \$35.00
 C. \$45.00
 D. None of these answer choices are correct.
88. Dent Lab Car Repair 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. Sweet Time Candies projects its factory rent to be \$8,000 in August when 4,000 pounds of candy are expected to be produced. If rent is a fixed cost, and if production is expected to increase to 6,000 units in September, what is the expected cost of rent in September?
- A. \$12,000
 B. \$8,000
 C. \$7,000
 D. Not enough information is provided to determine the answer.
90. Rincon Gifts had the following costs in May when 400 ceramic pots were produced: materials, \$4,200; labor cost, \$1,600; depreciation, \$800; rent, \$700; and other fixed costs, \$500. Which one of the following is the correct cost for Rincon?
- A. The fixed cost per unit is \$3.75
 B. The variable cost per unit is \$14.50
 C. The fixed cost per unit is \$19.50
 D. The total cost per unit is \$14.50

91. Rincon Gifts had the following costs in May when 400 ceramic pots were produced: materials, \$4,200; labor cost, \$1,600; depreciation, \$800; rent, \$700; and other fixed costs, \$500. If production changes to 500 units, which of the following costs will stay the same?
- Variable cost per unit
 - Fixed cost per unit
 - Total variable cost
 - Total cost per unit
92. Rincon Gifts had the following costs in May when 400 ceramic pots were produced: materials, \$4,200; hourly labor, \$1,600; depreciation, \$800; rent, \$700; and other fixed costs, \$500. If the production level changes to 500 units, how much will the total costs be?
- \$9,750
 - \$7,800
 - \$9,250
 - \$1,950
93. Variable cost per unit is budgeted to be \$8.00 and fixed cost per unit is budgeted to be \$5.00 in a period when 4,000 units are produced. If production is actually 5,100 units, what is the expected total cost of the units produced?
- \$52,000
 - \$60,800
 - \$66,300
 - \$40,800
94. In a period when anticipated production is 5,000 units, budgeted variable costs are \$75,000 and budgeted fixed costs are \$24,000. If 5,600 units are actually produced, what is the expected total cost?
- \$110,600
 - \$84,000
 - \$108,000
 - \$88,394
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?
- \$130,000
 - \$97,500
 - \$108,750
 - \$118,750
96. Rom Generators is in the process of preparing a production cost budget for August. Actual costs in July for the production of 60 generators were:

Materials cost	\$ 5,200
Labor cost	2,600
Rent	1,200
Depreciation	1,700
Other fixed costs	<u>4,600</u>
Total	<u>\$15,300</u>

Materials and labor are the only variable costs. If production and sales are budgeted to increase to 70 generators in August, how much is the expected total cost on the August budget?

- \$17,850
- \$16,600
- \$9,100
- \$15,300

97. Rom Generators is in the process of preparing a production cost budget for August. Actual costs in July for the production of 60 generators were:

Materials cost	\$ 5,200
Labor cost	2,600
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Depreciation	1,700
Other fixed costs	<u>4,600</u>
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Materials and labor are the only variable costs. If production and sales are budgeted to increase to 70 generators in August, how much is the expected total variable cost on the August budget?

- A. \$17,850
 B. \$16,600
 C. \$9,100
 D. \$15,300
98. Rom Generators is in the process of preparing a production cost budget for August. Actual costs in July for the production of 60 generators were:

Materials cost	\$ 5,200
Labor cost	2,600
Rent	1,200
Depreciation	1,700
Other fixed costs	<u>4,600</u>
Total	<u>\$15,300</u>

Materials and labor are the only variable costs. The company has estimated that it can increase sales to 70 generators in August if it changes the selling price of generators to \$450 instead of the current \$480 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. Barney & Robles plans to produce 50,000 books next year at a total cost of \$1,900,000. The 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 revenue generated if 54,000 units are sold?
- A. \$44,400
 B. \$98,000
 C. \$3,348,000
 D. \$3,250,000
100. Hanover Binding plans to produce 40,000 books next year at a total cost of \$1,640,000 with a selling price per book of \$66.00. The fixed costs total \$280,000. Management is considering lowering the price to \$60.00 per book, and feels that this action will cause sales to climb to 50,000 books. What will be the incremental costs incurred if 50,000 books are sold?
- A. \$340,000
 B. \$20,000
 C. \$1,700,000
 D. \$1,300,000

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101. Hanover Binding plans to produce 40,000 books next year at a total cost of \$1,640,000 with a selling price per book of \$66.00. The fixed costs total \$280,000. Management is considering lowering the price to \$60.00 per book, and feels that this action will cause sales to climb to 50,000 books. What is the amount of incremental profit if 50,000 books are sold?
- A. \$340,000 profit
 - B. \$20,000 profit
 - C. \$1,700,000 profit
 - D. \$1,300,000 profit
102. Which of the following terms involves calculating the difference in revenue and the difference in cost between decision alternatives?
- A. Budgeting production
 - B. Incremental analysis
 - C. Profit planning
 - D. Systems development
103. Which of the following statements regarding incremental analysis is true? Assume that there are no opportunity costs and that the capacity exists to complete any of the alternatives.
- A. The preferred alternative will have revenues that are greater than the revenues of the other alternatives.
 - B. The preferred alternative will have expenses that are greater than the expenses of the other alternatives.
 - C. The preferred alternative will have fixed expenses that are less than the fixed expenses of the other alternatives.
 - D. The preferred alternative will have profits that are greater than the profits of the other alternatives.
104. Which one of the following will most likely influence the actions of managers?
- A. Sunk costs
 - B. Performance measures
 - C. Noncontrollable costs
 - D. GAAP
105. Which of the following is **not** a reasonable measure of a plant manager's performance?
- A. Net income
 - B. Cost of insurance for the plant
 - C. Number of orders delivered on time
 - D. Change in market share
106. "You get what you measure!" refers to the relationship between
- A. managerial accounting and financial accounting.
 - B. ethical and unethical behavior.
 - C. duties of the CEO and duties of the controller.
 - 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 most likely 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 these answer choices are correct

108. Which of the following statements regarding performance measures is true?
- A. GAAP requires performance measures for all employees.
 - B. Companies must select from performance measures published by its own industry when deciding how they want to assess performance.
 - C. Employees tend to direct their attention to what is measured and may neglect what is not measured.
 - D. Companies need to place emphasis on a single performance measure so employees know what to expect.
109. ProLight plans to sell 1,600 white lights that enhance indoor plant growth next year with total budgeted sales of \$48,000 and estimated profit of \$8,000. Variable costs are projected to be \$17.50 per unit. Customer A offers to pay \$10,000 to buy 400 lights from ProLight. Total fixed costs are \$12,000 per year. This offer does not affect ProLight's other planned operations. How much is the incremental revenue associated with the offer from Customer A?
- A. \$58,000
 - B. \$10,000
 - C. \$48,000
 - D. \$3,000
110. ProLight plans to sell 1,600 white lights that enhance indoor plant growth next year with total budgeted sales of \$48,000 and estimated profit of \$8,000. Variable costs are projected to be \$17.50 per unit. Customer A offers to pay \$10,000 to buy 400 lights from ProLight. Total fixed costs are \$12,000 per year. This offer does not affect ProLight's other planned operations. What is the incremental cost associated with the offer from Customer A?
- A. \$58,000
 - B. \$10,000
 - C. \$48,000
 - D. \$7,000
111. ProLight plans to sell 1,600 white lights that enhance indoor plant growth next year with total budgeted sales of \$48,000 and estimated profit of \$8,000. Variable costs are projected to be \$17.50 per unit. Customer A offers to pay \$10,000 to buy 400 lights from ProLight. Total fixed costs are \$12,000 per year. This offer does not affect ProLight's other planned operations. How much is incremental profit associated with the offer from Customer A?
- A. \$3,000
 - B. \$10,000
 - C. \$48,000
 - D. \$7,000
112. Goody Buy Electronics has received an offer from a customer for \$21,600 to purchase 12,000 external hard drives. Good Buy has budgeted sales of 200,000 hard drives totaling \$500,000, with fixed costs of \$260,000 and total costs of \$420,000. Assuming that Good Buy 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 Good Buy'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. Classic Loungers is in the process of preparing a production cost budget for August. Actual costs in July for 200 chaise lounge chairs were:

Materials cost	\$ 6,000
Labor cost	8,000
Rent	2,000
Depreciation	4,000
Other fixed costs	<u>5,000</u>
Total	<u>\$25,000</u>

Each chair was sold for \$140 in July. Management estimates that sales will increase to 230 chairs during August if the company lowers the selling price to \$130 per chair. Materials and labor are the only variable costs. How much is the incremental cost of producing an extra 30 chairs?

- A. \$1,900
- B. \$2,100
- C. \$3,750
- D. \$(200)

114. Classic Loungers is in the process of preparing a production cost budget for August. Actual costs in July for 200 chaise lounge chairs were:

Materials cost	\$ 6,000
Labor cost	8,000
Rent	2,000
Depreciation	4,000
Other fixed costs	<u>5,000</u>
Total	<u>\$25,000</u>

Each chair was sold for \$140 in July. Management estimates that sales will increase to 230 chairs during August if the company lowers the selling price to \$130 per chair. Materials and labor are the only variable costs. How much is the incremental revenue associated with the price reduction?

- A. \$200
- B. \$2,100
- C. \$3,750
- D. \$1,900

115. Classic Loungers is in the process of preparing a production cost budget for August. Actual costs in July for 200 chaise lounge chairs were:

Materials cost	\$ 6,000
Labor cost	8,000
Rent	2,000
Depreciation	4,000
Other fixed costs	<u>5,000</u>
Total	<u>\$25,000</u>

Each chair was sold for \$140 in July. Management estimates that sales will increase to 230 chairs during August if the company lowers the selling price to \$130 per chair. Materials and labor are the only variable costs. Under what situation should the company lower the price of its chaise lounge chairs?

- 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. Which of the following is true concerning Enterprise Resource Planning (ERP) systems?
- A. They grew out of the material requirements planning systems that preceded them.
 - B. They will allow customers to track their orders.
 - C. They are considered sunk costs.
 - D. All of these answer choices are correct.
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 (SCM) systems
- 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. Which of the following should be considered when making ethical decisions?
- A. What is right?
 - B. What is standard practice?
 - C. Is the company's control system able to detect an irregularity?
 - D. All of these answer choices are correct.
120. Which of the following is one of the questions you should ask when faced with an ethical dilemma?
- A. Will I get caught?
 - B. What decisions alternatives are available?
 - C. Are the actions illegal?
 - D. How big is the effect on the company's profit?
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 these answer choices are correct.
122. The organization which administers the Certificate in Management Accounting program is the
- A. GAAP.
 - B. SCM.
 - C. CRM.
 - D. IMA.
123. In most companies, the top management accountant is called the
- A. financial analyst.
 - B. taxation specialist.
 - C. treasurer.
 - D. controller.

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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 are 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 these answer choices are correct.
126. For which one of the following is a company's treasurer typically held responsible?
- A. Reporting information to the IRS
 - B. Maintaining relationships with investors and creditors
 - C. Preparing audited 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. Chief executive officer
 - C. Janitor
 - D. Production supervisor
128. Sleep Time produces mattresses. During February, each mattress had has a variable cost of \$260, fixed costs of \$56,000 per month, and a unit selling price of \$500. If the company produces and sells 400 mattresses in March February, how much profit will the company expect for March assuming that the number of mattresses sold and the selling price per mattress remains the same as that of February?
- A. \$96,000
 - B. \$160,000
 - C. \$40,000
 - D. \$200,000
129. Sleep Time produces mattresses. Each mattress has a variable cost of \$260, fixed costs of \$56,000 per month, and a unit selling price of \$500. If the company produces and sells 400 mattresses in February, how much is the unit cost per mattress?
- A. \$260
 - B. \$400
 - C. \$240
 - D. \$100
130. Triatt Resort has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. The 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. Triatt Resort has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. The fixed costs total \$18,700 per month. If Triatt is able to increase occupancy from 70% to 80%, by how much will total costs increase per day during June?
- A. \$840
 - B. \$2,710
 - C. \$1,870
 - D. \$1,760
132. Triatt Resort has 200 rooms. Each room rents at \$130 per night and variable costs total \$42 per room per night of occupancy. The fixed costs total \$18,700 per month. If Triatt spends an additional \$30,000 in June on advertising, it estimates it can expect an occupancy rate of 85%. What will be the monthly financial impact of spending this additional money on advertising over an occupancy level of 70% during June?
- A. Profit will increase by \$49,200
 - B. Profit will increase by \$7,800
 - C. Total fixed costs will decrease.
 - D. Total costs will increase by \$1,260
133. A company purchases machinery costing \$60,000 in October of 2017. Five years later, management discovers better, more efficient machine that could be purchased for \$80,000 to replace the existing machine. Management has determined that they are able to sell the original machine for \$15,000. In making the decision about buying the new machine, how much are total sunk costs?
- A. \$60,000
 - B. \$80,000
 - C. \$15,000
 - D. \$20,000
134. Leah Berry 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 \$3,200 per month.
 - (2) Take a summer class which will cost \$600 and work half time making \$1,600 per month.
 - (3) Take two classes at a cost of \$1,200 and not work at all during the summer.
- Leah's opportunity cost of taking two classes if she chooses option 3 over option 1 would be
- A. \$3,200 per month.
 - B. \$2,000 per month.
 - C. \$1,200 per month.
 - D. \$1,600 per month.
135. Leah Berry 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 \$3,200 per month.
 - (2) Take a summer class which will cost \$600 and work half time making \$1,600 per month.
 - (3) Take two classes at a cost of \$1,200 and not work at all during the summer.
- Leah's incremental revenue if she chooses option 1 over option 2 would be
- A. \$1,000 per month.
 - B. \$2,200 per month.
 - C. \$1,600 per month.
 - D. \$1,000 per month.

136. Leah Berry 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 \$3,200 per month.
 - (2) Take a summer class which will cost \$600 and work half time making \$1,600 per month.
 - (3) Take two classes at a cost of \$1,200 and not work at all during the summer.
- Leah's incremental profit (or loss) if she chooses option 2 over option 1 would be
- A. (\$2,200) per month.
 - B. (\$1,600) per month.
 - C. (\$1,000) per month.
 - D. \$1,000 per month.
137. Flash Eyes sells mascara. In June, it produced and sold 10,000 tubes of mascara. For the month, 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 following statements is correct for July?
- A. Total variable costs 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. Flash Eyes 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. Which of the following statements is correct if Flash Eyes produced and sold 9,000 units in July?
- 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. Vita Boost Pets produces a line of cat food. In August, it produced and sold 1,000 bags of food. Total fixed costs were \$19,000. In September, it produced 2,000 bags of food. Which of the following statements is true for September?
- A. Total fixed costs will be \$38,000.
 - B. Total fixed costs will be \$9,500
 - C. Fixed cost per unit will be \$19.00.
 - D. Fixed costs per unit will be \$9.50.
140. Harrison Carpets incurred the following costs for March when 3,000 square feet of carpet were produced and sold:
- \$18,500 for nylon thread used on carpet
 - \$5,000 for scotch guard for carpet
 - \$7,200 for jute backing to reinforce the carpet
 - \$6,800 for glue to be used in the manufacturing process
 - \$13,000 for insurance (half for administrative activities, half for production activities)
 - \$9,000 for production employees' wages
 - \$6,500 for rent and utilities in the factory
- How much are total fixed costs for April if 3,500 square feet of carpet are produced and sold?
- A. \$19,500
 - B. \$32,500
 - C. \$77,000
 - D. \$22,750

141. Harrison Carpets incurred the following costs for March when 3,000 square feet of carpet were produced and sold:
- \$18,500 for nylon thread used on carpet
 - \$5,000 for scotch guard for carpet
 - \$7,200 for jute backing to reinforce the carpet
 - \$6,800 for glue to be used in the manufacturing process
 - \$13,000 for insurance (half for administrative activities, half for production activities)
 - \$9,000 for production employees' wages
 - \$6,500 for rent and utilities in the factory

How much are total variable costs if 3,500 square feet of carpet are produced and sold in April?

- A. \$77,000
- B. \$46,500
- C. \$54,250
- D. \$43,750

142. Harrison Carpets incurred the following costs for March when 3,000 square feet of carpet were produced and sold:
- \$18,500 for nylon thread used on carpet
 - \$5,000 for scotch guard for carpet
 - \$7,200 for jute backing to reinforce the carpet
 - \$6,800 for glue to be used in the manufacturing process
 - \$13,000 for insurance (half for administrative activities, half for production activities)
 - \$9,000 for production employees' wages
 - \$6,500 for rent and utilities in the factory

How much are variable costs per unit if 3,500 square feet of carpet are produced and sold in April?

- A. \$22.00
- B. \$15.50
- C. \$12.50
- D. \$18.86

Answers to Multiple Choice

49 B	65 B	81 A	97 C	113 B	129 B
50 C	66 B	82 A	98 A	114 D	130 C
51 A	67 B	83 A	99 B	115 C	131 A
52 D	68 C	84 B	100 A	116 A	132 A
53 D	69 C	85 C	101 B	117 A	133 A
54 C	70 B	86 A	102 B	118 B	134 A
55 D	71 D	87 C	103 D	119 A	135 C
56 A	72 D	88 B	104 B	120 B	136 A
57 B	73 D	89 B	105 B	121 D	137 B
58 B	74 C	90 B	106 D	122 D	138 A
59 D	75 A	91 A	107 A	123 D	139 D
60 C	76 C	92 C	108 C	124 C	140 A
61 B	77 D	93 B	109 B	125 D	141 C
62 D	78 C	94 C	110 D	126 B	142 B
63 C	79 A	95 C	111 A	127 A	
64 B	80 C	96 B	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.	Noncontrollable costs
	2.	Opportunity costs
	3.	Supply Chain Management systems
	4.	Sunk costs
	5.	Customer Relationship Management systems
	6.	Variable costs
	7.	Budgets
	8.	Controllable costs
	9.	Direct costs
	10.	Fixed costs
	11.	Incremental costs
	12.	Indirect costs
	13.	Enterprise Resource Planning system

- 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 forgone 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. Systems that prepare a master production schedule and provide support across various other departments of 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 to Matching

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

EXERCISES

144. Below is a performance report that compares budgeted and actual profit in the shoe department of Clara Boutique 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? Explain.

Answer

The actual sales is less than budgeted sales by 1.2% ($\$8,000 \div \$680,000$), while the cost of merchandise was 1.5% less than the budgeted amount. Salaries exceeded budget by 2.5%. The investigation should focus first on salaries, and possibly on the 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. Hourly wages for assembly workers in an food manufacturing firm
- _____ b. Changes on a per unit basis when the level of production changes
- _____ c. Depreciation calculated by the straight line method for factory machines
- _____ d. Monthly rent cost
- _____ e. Changes in total when the level of production changes
- _____ f. Wheels used on toy truck by a toy manufacturer
- _____ g. Janitor’s salary at a factory
- _____ h. Does not change in total when the level of production changes
- _____ i. Flour used to produce brownies by a snack manufacturer
- _____ j. Does not change on a per unit basis when the level of production changes

Answer

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

146. In a month when Walt Enterprises plans to make and sell 200,000 recycle bins, its total fixed costs are expected to be \$420,000 and its total variable costs are expected to be \$350,000. If the production level changes to 180,000 units, what is the expected total cost?

Answer

$$\$420,000 + [180,000 \times (\$350,000 \div 200,000)] = \$735,000$$

147. In a period when North Edge Shirt Company plans to make and sell 55,000 shirts, its total fixed costs are expected to be \$108,000, and its total variable costs are expected to be \$178,750. If the production level changes to 60,000 units, what is the expected cost per shirt?

Answer

$$(\$178,750 \div 55,000 \text{ units}) + (\$108,000 \div 60,000 \text{ units}) = \$5.05$$

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

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

Answer

- a. Variable
 b. Fixed
 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 company.

- _____ a. Depreciation on the car wash building
 _____ b. Car blow dryer depreciation
 _____ c. Salary of the car wash manager
 _____ d. Wages of employees who dry the cars
 _____ e. The cost of water used in car washes

Answer

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

150. Hanover Gears plans to produce 6,000 rotor gears in July. The production budget for this level of activity is:

Labor (variable)	\$35,000
Rent	6,000
Depreciation	4,000
Materials costs	7,000
Packaging	3,000
Other fixed costs	8,000

Calculate the total cost and the cost per unit if the production level is changed to 5,000 units.

Answer

Variable cost per unit = $(\$35,000 + \$7,000 + \$3,000) \div 6,000 = \7.50 per unit

Total costs = $(\$7.50 \times 5,000) + \$18,000 = \$55,500$

Unit cost = $\$55,500 \div 5,000 = \11.10

151. Parvez Painting provides painting services for residential and commercial customers five days per week (Monday through Friday). Due to customer requests, the company owner, Juan Parvez, is considering staying open on Saturday. If the company stays open on Saturday, it can generate \$1,600 of daily revenue and will operate for 52 extra days per year. The incremental daily costs will be \$700 for labor, \$200 for paint, brushes, and supplies, \$40 for transportation, and \$80 for office staff. These costs do not include a share of monthly rent totaling \$220, or a share of depreciation related to office equipment totaling \$170. Prepare an estimate of the incremental profit for the year.

Answer

Incremental revenue per day		\$1,600
Less incremental costs:		
Labor	\$700	
Paint, brushes, and supplies	200	
Transportation	40	
Office staff	<u>80</u>	<u>1,020</u>
Net increase in profit		<u>\$ 580</u>

Incremental profit = $\$580$ per day \times 52 days = $\$30,160$

152. Vickshay Bolts has fixed costs of \$40,000 and variable costs of \$100,000 during a period when 10,000 units were produced.

- a. Complete the following table based on the information for Vickshay Bolts:

	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 this 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 each of the following if the level of production decreases?
- Fixed cost per unit
 - Variable cost per unit
 - Fixed costs in total
 - Variable costs in total

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 will increase because the fixed costs will be spread among fewer units.
 - Variable cost per unit will remain the same when the level of production changes.
 - When the level of production decreases, total fixed costs will remain the same.
 - When the level of production decreases, total variable costs will also decrease.

153. Reef Paradise is a five-star resort on the island of St. Thomas. Late on Friday, it had 10 of its 400 rooms available when the desk clerk received a call from the Hyatt Hotel that had made a booking error leaving six couples with no rooms even though their reservations were confirmed. Hyatt wants to send their customers to the Reef Paradise at the same rate the guests would have been charged at the Hyatt, \$190 per room, rather than Reef's normal rate of \$240 per room.
- If Reef Paradise accepts the guests, how much will the incremental revenue be?
 - List four examples of incremental costs that Reef Paradise will incur if it accepts the guests.

Answer

- $\$190 \times 6 = \$1,140$
- 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
Cost of electricity

154. Sanchez Sweets is in the process of preparing a production cost budget for May. Actual costs in April for production of 7,000 batches of cookies were:

Ingredients cost	\$ 7,200
Rent	1,100
Labor cost	3,300
Depreciation	900
Other fixed costs	<u>700</u>
Total	<u>\$13,200</u>

The company is currently producing and selling 80,000 batches of cookies annually with each batch sold for \$8.00. The company is considering lowering the price to \$7.50 per batch for which management estimates this will increase sales to 90,000 batches. Ingredients and labor are the only variable costs.

- What is the incremental cost associated with producing an extra 10,000 batches of cookies?
- What is the incremental revenue associated with the price reduction?
- Should Sanchez Sweets lower the price of its cookies?

Answer

- Variable cost per unit = $(\$7,200 + \$3,300) \div 7,000 = \$1.50$ per batch
Additional cost: $\$1.50 \times 10,000 = \$15,000$
- | | |
|--|------------------|
| Original revenue (80,000 × \$8.00) | \$640,000 |
| Revenue with price change (90,000 × \$7.50) | <u>675,000</u> |
| Incremental revenue associated with price change | <u>\$ 35,000</u> |
- Yes. Total costs increase by \$15,000, while the revenue increases by \$35,000, creating additional profit of \$20,000.

155. Sanchez Sweets is in the process of preparing a production cost budget for May. Actual costs in April for production of 5,000 batches of cookies were:

Ingredients cost	\$ 7,200
Rent	1,100
Labor cost	3,300
Depreciation	900
Other fixed costs	<u>700</u>
Total	<u>\$13,200</u>

Ingredients and labor are the only variable costs.

- Using this information, prepare a budget for May. Assume that production will increase to 8,000 batches of cookies, reflecting an anticipated sales increase related to a change in selling price.
- 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

- Ingredients cost per unit = $\$7,200 \div 5,000 = \1.44
 Labor cost per unit = $\$3,300 \div 5,000 = \0.66

Ingredient cost ($\$1.44 \times 8,000$)	\$11,520
Labor cost ($\$0.66 \times 8,000$)	5,280
Rent	1,100
Depreciation	900
Other fixed costs	<u>700</u>
Total	<u>\$19,500</u>

- April: $\$13,200 \div 5,000 \text{ units} = \2.64
 May: $\$19,500 \div 8,000 \text{ units} = \2.44
 The unit cost declines because some costs are fixed, which do not increase with increases in volume. The fixed cost per unit is smaller when there are more units.

156. The manager of quality control at Zenic Products, a medical products company, purchased a new lab machine for \$44,000 two years ago during 2017. This year, a new machine, which is faster and more precise than the current model, is available in the market. In deciding whether or not to purchase the new machine, indicate if the manager should consider each of the following costs and why.

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

Answer

- No. The original cost is a sunk cost.
- 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.

1-30 **Test Bank** to accompany Jiambalvo *Managerial Accounting*, 6th Edition

157. Jones Cola sells bottled beverages. During the past year, 40,000 bottles were produced and sold at a price of \$1.20 per bottle. Variable cost per unit was \$0.45 and total fixed costs were \$150,000. Jones Cola would like to raise the price per bottle to \$1.50, but feels that this will reduce sales to 36,000 bottles per year. Perform the appropriate incremental analysis of this situation. Clearly label the incremental revenues, incremental costs, and incremental profits. Should Jones Cola raise its price?

Answer

Incremental revenue ($\$1.20 \times 40,000$) – ($\$1.50 \times 36,000$)	\$6,000
Incremental variable cost savings ($\$0.45 \times 4,000$)	<u>1,800</u>
Incremental profit	<u>\$7,800</u>

Jones Cola should raise its selling price since its profit is estimated to increase by \$7,800.

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

Answer

Incremental revenue ($\$4.25 \times 4,000$)	\$17,000
Incremental variable cost ($\$2.00 \times 4,000$)	<u>(8,000)</u>
Incremental profit	<u>\$ 9,000</u>

The offer should be accepted based on the estimated increase in profit of \$9,000.

CHALLENGE EXERCISES

159. Fiesta Shirts produces two types of t-shirts—crew neck and v-neck. The variable cost of producing each crew neck shirt is \$4.25, and \$4.50 per shirt for each v-neck. Fixed costs per shirt are \$1.50 per shirt when the production level is 12,000 of both types of shirts. The fixed cost is for factory costs including rent, depreciation, and insurance. Crew necks are currently sold for \$7.00 each, while v-necks are sold for \$8.00 each. During the past year, the company has sold 12,000 of each type of shirt. The company estimates it can sell 14,000 crew neck shirts during the upcoming year if it reduces the selling price to \$6.50 per shirt.
- Prepare the incremental analysis to evaluate this situation for the coming year.
 - Should Fiesta Shirts reduce the selling price? Why or why not?
 - Why is the fixed cost of each shirt not used in the incremental analysis?
 - Why does the analysis in part “a” exclude amounts related to the v-neck shirts?

Answer

- | | |
|---|------------------|
| Incremental revenue (14,000 × \$6.50) – (12,000 × \$7.00) | \$ 7,000 |
| Incremental cost (\$4.25 × 2,000) | <u>(8,500)</u> |
| Incremental decline in profit | <u>(\$1,500)</u> |
- Fiesta Shirts should not reduce the price of the crew neck shirts as total profit will decline by \$1,500.
- Fixed costs are generally not avoidable when a change in units produced occurs. The company will incur the same amount of total fixed costs regardless of the number of shirts produced.
- Fiesta Shirts plans no changes to the v-neck shirts so the amounts are not incremental to the decision to sell additional crew neck shirts.

160. Junk Food Palace has two product lines: candy and chips. Information for the month of June is presented below:

	Candy	Chips
Units sold	5,000	8,000
Revenue	\$7,500	\$16,000
Variable costs	4,000	8,800
Fixed costs	2,000	2,000
Net income (loss)	\$1,500	\$ 5,200

- a. A potential new customer has asked to buy 1,000 candy products and 1,500 chips products at 80% of the price paid by other customers. Prepare an incremental analysis that will help Junk Food Palace's managers decide whether to accept the order from the customer.
- b. Suppose Junk Food Palace decided to accept the order. Identify three other considerations that management should consider before accepting the order.

Answer

- a. Selling price per unit of candy: $\$7,500 \div 5,000 = \$1.50 \times 80\% = \$1.20$
 Selling price per unit of chips: $\$16,000 \div 8,000 = \$2.00 \times 80\% = \$1.60$
 Variable cost per unit of candy: $\$4,000 \div 5,000 = \0.80
 Variable cost per unit of chips: $\$8,800 \div 8,000 = \1.10

Incremental revenue $(1,000 \times \$1.20) + (1,500 \times \$1.60)$	\$3,600
Incremental cost $(\$0.80 \times 1,000) + (\$1.10 \times 1,500)$	<u>(2,450)</u>
Incremental profit	<u>\$1,150</u>

- b. Management must consider what other customers might think if they find out that Junk Food Palace is selling to other customers at a cheaper price. They will also want to know if employees are able to work extra hours to produce the additional product and if suppliers will have the ability to deliver the materials needed to produce the extra snacks.

SHORT-ANSWER ESSAYS

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

Answer

The reports used to evaluate the performance of managers and the operations they control are referred to as performance reports. 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. Managers use performance reports to flag areas that need closer attention and to avoid areas that are under control. 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.

162. Explain the principle of “management by exception.”

Answer

Management by exception is a principle that helps managers investigate departures from the plan that appear to be exceptional; they do not investigate minor departures from the planned performance. Resources are used to investigate the major exceptions to the plan.

163. 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 information in much more detail.
4. Managerial accounting reports may contain a substantial amount of nonmonetary information.
5. Financial accounting records represent what has happened in the past, while managerial accounting places considerable emphasis on the future.

164. 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 that are controllable and those that 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.

1-34 **Test Bank** to accompany Jiambalvo *Managerial Accounting*, 6th Edition

165. 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.

166. 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 where there are different alternatives and based on the outcome of the alternatives, a decision needs to be arrived at and best alternative is to be chosen. If an alternative yields an incremental profit (the difference between incremental revenue and incremental cost), it is the preferred alternative.

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

Answer

An Enterprise Resource Planning System is a software system which processes information and improves the operation of the value chain. It is an improvement over material requirements planning (MRP) systems which computerized inventory control and production planning. ERP systems update MRP systems with better integration, relational databases, and graphical user interfaces. ERP components also include accounting and finance, human resources, and various e-commerce applications including SCM and CRM.

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.