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QUESTION 1

Donnelly Corporation manufactures and sells T-shirts imprinted with college names and slogans. Last year. the shirts sold for $7.50 each, and the variable cost to manufacture them was $2.25 per unit. The company needed to sell 20.000 shirts to break even. The net income last year was $5,040 Donnelly expectations for me coming year include the following: The sales price of the T-shirts will be $9 Variable cost to manufacture Will increase by one-third Fixed costs will increase by 10% The income tax rate of 40% will be unchanged

The selling price that would maintain the same contribution margin rate as last year is?

A. $9.00

B. $8.25

C. $10.00

D. $9.75

Correct Answer:

Last year, unit variable cost was $225, so the unit contribution margin (UCM) was $5.25 ($7.50 price --$2.25). and the contribution margin rate (CMR) was 70% ($5.25. $7.50). If variable costs increase by one-third, the new variable cost will be $3 [$2.25 x (4 3)]. If a 70% CMR is desired, the $3 variable cost will be 30% of sales, and the unit sales price will be $10 ($3 30%)

QUESTION 2

High-Tech Industries is considering the acquisition of a new state-of-the-art manufacturing machine to replace a less efficient machine. Hi-Tech has completed a net present value analysis and found it to be favorable. Which one of the following factors should not be of concern to Hi-Tech in its acquisition considerations?

A. The availability of any necessary financing.

B. The probability of near-term technological changes to the manufacturing process.

C. The investment tax credit.

D. Maintenance requirements, warranties, and availability of service arrangements.

Correct Answer: C

The investment tax credit is of no concern because it no longer exists. The 1986 Tax Reform Act eliminated the investment tax credit.

QUESTION 3

Oradell Company sells its single product at a price of $60 per unit and incurs the following variable costs per unit of product Oradell\\'s annual fixed costs are $880.000, and Oradell is subject to a 30% income tax rate. The number of units of product that Oradell Company must sell annual\\' to break even is?

Sales ($60 per unit)	$2,880,000
Variable manufacturing ($35 per unit)	(1,680,000)
Variable selling ($5 per unit)	(240,000)
Contribution margin	$ 960,000
Fixed costs	(880,000)
Income before tax	$ 80,000
Tax expense (30%)	(24,000)
Net income	$ 56,000

A. 22,000 units

B. 44,000 units.

C. 35.200 units.

D. 30,800 units.

Correct Answer: B

The breakeven point in units equals fixed costs divided by the contribution margin per unit at a selling price of $60 per unit and with variable costs of $40 per unit, the unit contribution margin is $20. Thus, the breakeven point is 44,000 units ($880,000 $20).

QUESTION 4

Which of the following cost allocation methods is used to determine the lowest price that can be quoted for a special order that will use idle capacity within a production area?

A. Job order.

B. Process.

C. Variable.

D. Standard.

Correct Answer: C

If idle capacity exists, the lowest feasible price for a special order is one covering the variable cost. Variable costing considers fixed cost to be a period cost, not a product cost. Fixed costs are not relevant to short term inventory costing with idle capacity because the fixed costs will be incurred whether or not any production occurs. Any additional revenue in excess of the variable costs will decrease losses or increase profits.

QUESTION 5

The characteristics of Venture capital include all of the following except

A. Initial pinnate placement for the majority of issues

B. A minimum holding period of 5 years for new securities

C. The use of common stock for most placements.

D. A lack of humidity for a period of time.

Correct Answer: B

The concept of venture (risk) capital appestat new enterprises that might not be able to obtain funds in the usual capital markets because of the friskiness Of new products, Such companies somberness toy to place `scantiest. normality common stock, with venture captive firms. These are normally private percents of the securities and thus not subject to SEC regulator. The venture capitalists risk low liquidity for their investments until the young `corporation becomes successful. The payoff may be substantial if the company does succeed There is no minimum holding period for venture capital investments,

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