Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse
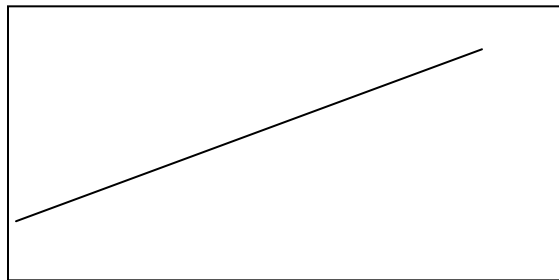
Chapter 14—Cost Behavior, Activity Analysis, and Cost Estimation

Practice Quiz

1.   A graph of the Blaze Pizza's total cost of annual deprecation and property taxes most closely resembles this total cost behavior pattern:

   a. Variable cost
   b. Fixed cost
   c. Mixed cost
   d. Step cost

2.   Presented is a graph of total costs for a fast food restaurant:

   If management makes a decision to more fully automate food preparation, purchasing additional equipment will lower unit operating costs by reducing the labor force, the impact on the graph for total costs will most likely be:

   a. An increase in the vertical axis intercept and an increase in the slope of the total cost line
   b. A decrease in the vertical axis intercept and an increase in the slope of the total cost line
   c. An increase in the vertical axis intercept and a decrease in the slope of the total cost line
   d. A decrease in the vertical axis intercept and a decrease in the slope of the total cost line

3. At a sales volume of 75 units the average cost is $350 per unit and the variable cost is $ 5 per unit. Assuming a linear cost behavior pattern, if sales double to 150 units the average cost will be:

a. $182.50
b. $172.50
c. $175.00
d. $177.50

4. Amy's Ice Cream Shop had the following activity costs during May and June:

	Number of Cones Served	Total Cost
May	2,000	$8,000
June	4,000	$10,500

Using the high-low method, the predicted total cost for July when expected sales of 5,500 are:

a. $ 6,875
b. $18,500
c. $12,375
d. $10,500

5. When compared to the high-low method of cost estimation, an advantage of the scatter diagram method is its:

a. Ability to assist in identifying outlier observations
b. Lack of reliance on professional judgment
c. Limited data requirements
d. Provision of information to assist in determining how well the cost estimating equation fits the historical data

6. Increasing the length of the time period included in each observation of activity and cost will assist in overcoming this possible problem in cost estimation:

a. Data not based on normal operations
b. Nonlinear relationship between total costs and activity
c. Changes in technology or prices
d. Failure to match activity and costs within each observation

7. The cost of depreciation on specialized equipment is best classified as a:

    a. Unit level cost
    b. Batch level cost
    c. Product level cost
    d. Facility level cost

8. Hudson manufactures a product with the following manufacturing cost hierarchy for its only current product:

	Cost
Unit	$10/unit
Batch	$500/batch
Product	$12,000/year
Facility	$40,000/year

    Next year Hudson plans to manufacture 30,000 units of product in batches of 200 units. Hudson's predicted manufacturing costs for next year are:

    a. $387,000
    b. $427,000
    c. $375,000
    d. $452,000

9. Watt sells specialized products produced by computer companies to 200 engineering firms at a selling price based on Watt's purchase price. Watt's customer cost hierarchy is as follows:

	Cost
Unit	75 percent of selling price
Batch	$100 per sales order
Customer	$800 per customer per year
Facility	$100,000 per year

    Next year Watt plans to sell $3,000,000 of product to the 200 engineering firms they serve. They anticipate that each firm will place an average of 5 orders. West's predicted customer costs for next year are:

    a. $100,000
    b. $2,530,000
    c. $2,250,000
    d. $2,610,000