

**Managerial Accounting for Undergraduates**  
2nd Edition  
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**PRACTICE QUIZ**

**Chapter 6: Cost-Volume-Profit Relationships**

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1. Which of the following describes the contribution margin?
  - a. Sales price minus variable costs
  - b. Will generate a profit after all fixed costs are covered
  - c. At break-even, it will equal fixed costs
  - d. All of the above
  
2. Green T-Shirt Processing has a unit sales price of \$20 for their t-shirt. Variable cost per t-shirt is \$6. If they sold 7,000 shirts last quarter. What is their net operating income?
  - a. \$98,000
  - b. Since fixed costs are not given, we cannot answer this question
  - c. \$14 per unit
  - d. Since fixed costs are not given, they broke even

**Use the following information to answer Questions 3, 4, 5 and 6.**

Green T-Shirt Processing has a unit sales price of \$20 for their t-shirt. The contribution margin percentage is 70%.

3. If they sold 7,000 shirts last quarter and fixed costs totaled \$10,000, what is their net operating income?
  - a. \$98,000
  - b. They are at breakeven
  - c. \$88,000
  - d. None of the above
  
4. What is their breakeven point in sales dollars?
  - a. \$10,000
  - b. \$12,500
  - c. \$14,700
  - d. \$14,286

5. What is true of Green T-Shirt Processing's breakeven point?
- For each unit sold beyond the breakeven point, \$14 of additional contribution margin is generated to help produce a profit
  - For each unit sold beyond the breakeven point, \$6 of additional contribution margin is generated to help produce a profit
  - Their contribution margin is \$6, if they lower prices, they will breakeven
  - None of the above
6. Green T-Shirt Processing incurs only fixed and variable costs in its operations. When 10,000 T-shirts are produced, the company's managerial accountant noted a fixed cost per shirt of \$1.00 and a variable cost per pot of \$6.00.
- If production is expected to increase, which of the following statements is true?
- The fixed cost per T-shirt will not change; the variable cost per T-shirt will decrease.
  - Total fixed costs will decrease; the variable cost per T-shirt will not change.
  - The fixed cost per T-shirt will decrease; the variable cost per T-shirt will increase.
  - Total fixed costs will remain unchanged; total variable costs will increase.

**Reference the following CVP formula for Questions 7, 8, 9 and 10.**

$$\text{Desired sales (\$)} = (\text{Total Fixed Costs} + \text{Net Income}) / \text{Contribution margin ratio}$$

7. Assume that a company is using the CVP formula to calculate sales needed to achieve a desired net income. If the company first calculates the breakeven point, what is true of desired net income (profit)?
- It will be equal to fixed costs
  - It will be equal to variable costs
  - It will be equal to unit contribution
  - It is equal to 0
8. Tony's Pizzeria is estimated to have fixed costs of \$30,000 and they want to achieve a profit of \$120,000 before taxes. How many pizzas must they sell to achieve a before tax profit of \$120,000 if they have a current contribution margin of \$3 per unit?
- 125,000 pizzas
  - 60,000 pizzas
  - 50,000 pizzas
  - 120,000 pizzas
9. Using the same information from Question 8, what is the selling price per pizza?
- \$4
  - \$5
  - \$7
  - We don't have enough information to determine selling price

10. Using the same information from Question 8 and assuming an original CM ratio of 60% for Tony's Pizzeria. If variable costs increased by \$.50 because Tony's Pizzeria had to switch suppliers, how many pizzas must the company sell to achieve a before tax profit of \$120,000?
- a. 125,000 pizzas
  - b. 60,000 pizzas
  - c. 50,000 pizzas
  - d. 120,000 pizzas

## SOLUTIONS

### Chapter 6: Cost-Volume-Profit Relationships

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- 1. d
- 2. b
- 3. c
- 4. d
- 5. a
- 6. d
- 7. d
- 8. c
- 9. d
- 10. b