

Financial & Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

Chapter 19: Cost-Volume-Profit Relationships

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 19: Cost-Volume-Profit Relationships

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