Financial & Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

Chapter 21: Relevant Costs and Short-Term Decision Making

1. What differentiates a sunk cost from a relevant cost?

a. A sunk cost occurred in the past and doesn't affect decision making. A relevant cost differs between alternatives and is used in decision making.
b. A relevant cost occurred in the past and doesn't affect decision making. A sunk cost differs between alternatives and is used in decision making.
c. Both costs are used is decision making.
d. Neither cost is used in decision making.

2. What is true of opportunity costs in making decisions?

a. Because opportunity costs are irrelevant, managers should not consider them.
b. Because opportunity costs represent the future benefit that is given up when a choice is made, managers should consider them.
c. Because opportunity costs occur in the past, managers should not consider them.
d. Managers should only consider variable opportunity costs.

3. When should managers accept special orders?

a. After examining qualitative and quantitative factors
b. If incremental revenues exceed incremental costs
c. If there is a net advantage in accepting the special order
d. All of the above

4. Which of the following is a potential *qualitative* factor to consider when accepting a special order?

a. The company will lose $10,000 by accepting the special order.
b. The special order requires purchase of a special engraving machine.
c. The perceived quality of the regular product is negatively impacted could be negatively impacted by the special order.
d. All of the above.

5. A paint manufacturing company produces three paint bases of differing quality. Due to throughput limitations (measured in gallons) at their facility, they are unable to meet total demand for their products.

In determining which of their products they should produce, what should they consider?

a. The gross profit per unit for each product
b. The operating margin per unit for each product
c. The contribution margin per gallon of throughput for each product
d. None of the above

Reference the following information for Questions 6 and 7.

Hooker Electronics manufactures three different gaming consoles: Model A, Model B, and Model C. Plenty of market demand exists for all models. The table below reports the prices and costs per unit of each product:

	Model A	Model B	Model C
Selling price	$80	$80	$75
Direct materials costs	$5	$5	$5
Direct labor costs ($20 per labor hour)	$40	$20	$40
Variable support costs ($4 per machine hour)	$8	$12	$4
Fixed support costs	$15	$15	$15

6. Assuming that machine hours are limited (i.e., this is the constrained resource), which model is the most profitable to produce?

a. Model A
b. Model B
c. Model C
d. Models A and B

7. Assuming that labor hours are limited (i.e., this is the constrained resource), what is the Contribution Margin per labor hour for Model C?

a. $5.50
b. $26.00
c. $13.00
d. $15.00

Reference the following information for Questions 8 and 9.

Lightning Remote Cars manufactures remote control cars for children. Historically, Lightning Remote Cars has manufactured their own tires they sell. However, a tire manufacturer has recently approached Lightning Remote Cars with an offer to produce their tires for them for $1.40 per tire.

8. Lightning Remote Cars incurs the following costs in the per-unit production of the tires. Management is wondering whether they should accept the offer:

- $0.25 for direct materials
- $0.80 for direct labor
- $0.30 for variable overhead
- $0.50 for fixed overhead

What would be the increase or decrease in per-tire costs if the tires are purchased from the outside supplier?

a. $0.05 increase per unit
b. $0.05 decrease per unit
c. $0.45 increase per unit
d. $0.45 decrease per unit

9. Lightning Remote Cars anticipates needing 50,000 tires this year to meet the demand for their remote control cars. What would be the total impact on operating income if the tires are purchased from the outside supplier?

a. An increase of $2,500
b. A decrease of $2,500
c. An increase of $22,500
d. A decrease of $22,500

10. Allen's Fine Jewelry makes necklaces, bracelets and rings. In the past two years, they have failed to make a profit with their necklace line. The following information relates to the costs involved in making the necklaces:

- Revenue: $125 per necklace
- Direct Labor: 4 hours, @ $30/hour
- Variable Overhead: $20 per necklace
- Fixed overhead: $75 per necklace
- Average number of pieces sold per month: 65 necklaces

Management is considering discontinuing the necklace segment of their business. By how much would Operating Income per month increase or decrease if this segment were dropped?

a. $325 increase in operating income
b. $325 decrease in operating income
c. $975 increase in operating income
d. $975 decrease in operating income

SOLUTIONS

Chapter 21: Relevant Costs and Short-Term Decision Making

1. a

2. b

3. d

4. c

5. c

6. c

7. c

8. a

9. b

10. c