# American University of Beirut Olayan School of Business

## ACCT 215 MIDTERM Fall 2004 - 2005





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Name: Edmond Morcos

ID#: 200402761

Section: T-Th 2-3h15

Instructor: Mrs. Ramia Mardini

Time: 2 Hours

The examination is comprised of seven pages and the following questions:

Question	Type	Points	Minutes
1	Multiple choice	20 -5	30
2	Break-Even Analysis	20	20
3	Joint Products	15	15
4	Cost Management	15	15
5	Keep/Drop a Product Line	15	15
6	Measurement of Cost Behaviour	15	15
	Cushion		10
	Total	100	120

### **INSTRUCTIONS:**

PLEASE ANSWER <u>ALL</u> QUESTIONS (<u>INCLUDING MULTIPLE</u> <u>CHOICE</u>) ON THE <u>ANSWER BOOKLET</u>. SHOW ALL SUPPORTING COMPUTATIONS!

#### **GOOD LUCK!!**

### I. MULTIPLE CHOICE

-5

1. The primary purpose of management accounting is



presenting information to help managers fulfill organizational objectives. preparing information for shareholders, tax authorities, and other persons outside organizations.



complying with generally accepted accounting principles and tax rules. all the above are purposes of management accounting.

►2. Cost-benefit analyses and behavioral implications are major considerations in



financial accounting more than in management accounting. management accounting more than in financial accounting.

- c. both financial and management accounting equally.
- d. neither management nor financial accounting.
- 3. The concept of management by exception is
  - a. inconsistent with management accounting.
  - appropriate in financial accounting but not in management accounting.
    a major element in management accounting by focusing on deviations from plans while ignoring smoothly running activities.
    - d. a traditional approach that is no longer appropriate.
- 4. The value chain of an organization focuses on adding value to
  - a. shareholders' investments in a company.
  - b. managers' abilities to run a company efficiently and effectively.
  - customers by adding value to goods and services.
  - d. the macroeconomic well being of the country.
- 5. Ethical behavior is important in management accounting because



ethical conduct adds value.

ethical conduct is required by law.

ethical conduct reduces value but adds to favorable public images.

Ethical conduct is not important in management accounting.

- 6. A variable cost
  - a changes in direct proportion to cost driver level.
    - b. changes with the level of output.c. changes from one period to the next.
    - d. changes from one relevant range to the next.

#### A fixed cost



is constant over all levels of output within the relevant range. is not immediately affected by changes in the cost-driver level. is constant from one period to the next.

d. constant on a per-unit basis.

### 8. In management accounting analyses, the cost driver is

a. the number of units produced or sold.
b. the money amount of sales revenue.
any output measure that causes a cost to be incurred.
either a or be depending on the nature of the company.

### 9. In management accounting analyses, the relevant range is the

a total possible range of output.
b. output range planned by management of a company.
c. limit to sales activity because of marketing factors.
limit of cost-driver activity level within which cost relationships are valid.

### 10. The break-even point results when

a. total revenue equals total costs.
b. contribution margin equals fixed costs.
c. variable costs equal fixed costs.
d both a. and b. describe the break-even point.

#### 11. The contribution margin is

a. the same as the gross margin.
revenues less variable costs.
revenues less fixed costs.
revenues less total costs.

### 12. Operating leverage is a company's ratio of

fixed to variable costs.

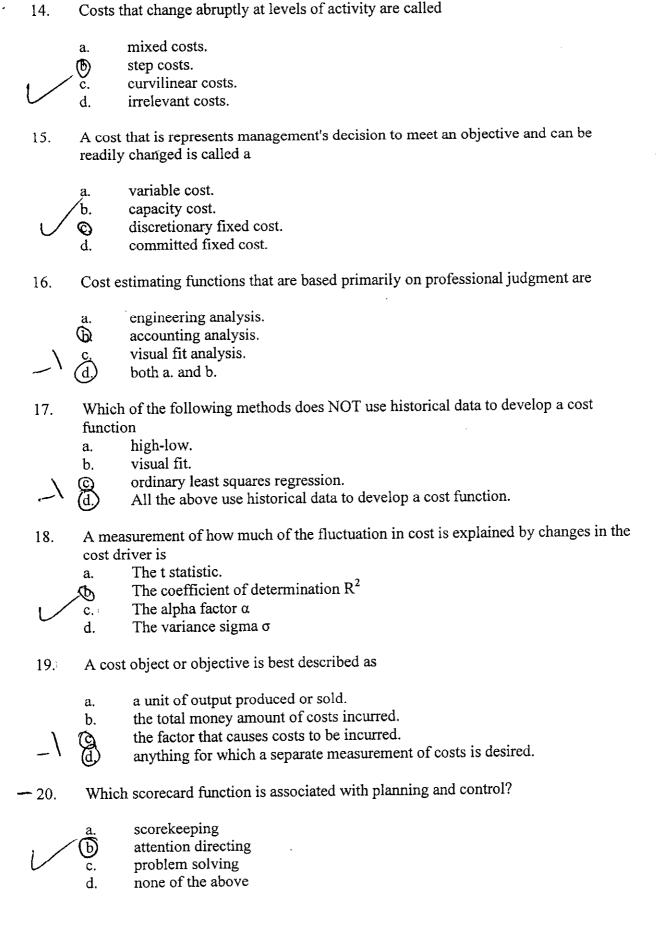
b. fixed to total costs.

c. variable to total costs.

debt to equity.

### 13. In analyzing cost behavior patterns, management accountants

should always seek to determine the most accurate true cost.
use curvilinear and similar quantitative techniques to determine cost functions.
typically ignore costs that cannot be easily measured.
often assume cost behavior is linear over the relevant range.





#### II BREAK-EVEN ANALYSIS

Beirut City, SAL, is a major producer of pipe organs. Its Model D 14 is a double-manual organ with a large potential market. Here is a summary of data from 2003 operations for Model D 14.

Variable costs per unit	
Direct materials	\$ 2,300
Direct labor	800
Factory overhead	600
Selling expense	500
Total fixed costs	
Factory overhead	195,000
Advertising	55,000
Administrative expense	68,000
Selling price per unit	9,500 \$ 3000

#### Required:

1. Compute the 2003 breakeven point in units.

2. Beirut City sold sixty-five D 14 models in 2003. How much profit did the firm realize? 65 min sold

3. Management is pondering alternative courses of action for 2004. (Treat each alternative independently.)

a. Calculate the number of units that must be sold to generate a profit of \$95,400.

Assume that costs and selling price remain constant.

Calculate income before taxes if the company <u>increases</u> the number of units sold by 20 percent and cuts the selling price by \$ 500 per unit.

c. If variable costs are cut by 10 percent, find the number of units that must be sold to generate a profit of \$ 125,000.

### II. JOINT PRODUCTS

Warner Company has a joint process which produces three products, <u>AA, BB</u> and <u>CC</u>. Each product may be sold at split-off or processed further and then sold. Joint processing costs for a year amount to \$30,000. Currently, Warner sells all products at split-off. Other relevant data are as follows:

<u>Product</u>	Sales Value at Split-off	Separable Processing Costs after Split-off	Sales Valu	
AA	\$15,500	\$2,200	\$17,700	15,500
BB	18,000	8,000	23,000	15,000
CC	24,000	11,500	37,500	2 <b>6.6</b> 00

#### Required:

- a. What will be the effect on profits of processing each product further?
- b. Assume the company maximizes profits, what is the company's operating income?

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### III. COST MANAGEMENT

The Solomon Company has gathered the following information:

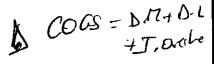
Sales Direct materials used Direct labor	\$104,000 25,800 \ varioble 41,000 15,200 \
Fixed: Factory overhead Selling expenses Administrative expenses	$\begin{pmatrix} 12,400 \\ 4,200 \\ 8,600 \end{pmatrix} = 25,200$
Variable: Factory overhead Selling expenses Administrative expenses	6,600 8,800 4,600

There were no beginning or ending inventories.

### Required:

Calculate the following:

- a. Contribution margin 43000
- b. Gross margin 44000
- c. Total product cost 66 our 12400 + ONT TAL = 60000
- To tal period cost 26200



## /. KEEP / DROP A PRODUCT LINE

Freedom Corporation has three departments, Data for the most recent year is presented below:

	<u>A</u>	<u>B</u>	<u>C</u>
Sales Variable expenses	\$400 128	\$200 52	\$80 34
Fixed expenses: Unavoidable Avoidable	96 116	52 104	· 12 54

### Required:

- a. Compute the operating income of the company.
- b. Compute the contribution margin and operating income of each department.
- c. Should any department(s) be eliminated? Which one(s) and why?