CHAPTER 7 Multiple Choice

1. Sales of Quickie Computers are down, and management plans to increase salespersons' commissions on sales by 10 percent in hopes of raising sales volume by 10 percent. What effect should this change have?

a. Sales price will increase.
b. Sales price will decrease.
c. Variable costs will increase.
d. Variable costs will decrease.

2. Which of the following items is not subtracted from sales revenue to arrive at the contribution margin on a contribution margin income statement?

a. variable manufacturing costs
b. sales commissions paid only on items that are sold
c. variable sales and administrative expenses
d. fixed manufacturing overhead

3. The contribution margin income statement is structured in such a way as to emphasize:

a. cost functionality
b. cost behavior
c. organizational efficiency
d. cost drivers

4. If a company has a positive contribution margin but net income is low or negative, what are some ways of increasing net income?

a. increase sales price
b. increase sales volume
c. decrease variable costs
d. All of the above are ways to increase net income.

5. XYK Company sells flash drives for computers for $15 each. Each unit has variable costs of $5. The company's total fixed costs are $1,000,000. If sales increase by 1,000 units, how much will the company's net income increase?

a. Net income will increase by $10,000.
b. Net income will increase by $15,000.
c. Net income will increase by $5,000.
d. Net income will increase by an amount that cannot be determined from the information given.

6. The following data relate to a small specialty lightbulb sold by Walt Zarnoch's Lighting, Inc.:

Sales price $4.50 per unit
Variable costs $3.25 per unit
Fixed costs $5,000
Units sold 20,000

If one more unit is sold, net income will:

a. increase by $4.50
b. increase by $1 .25
c. decrease by $3.25
d. decrease by $3.50

8. Emily Sand Corp. has the following information available regarding last year's operations:

Sales (150,000 units)	$300,000
Variable costs	100,000
Contribution margin	200,000
Fixed costs	100,000
Net income	$100,000

If sales increase by 20%, how much will the company's net income be?

a. $120,000
b. $140,000
c. $160,000
d. $180,000

9. Which of the following factors is not directly relevant to a company that is evaluating "what-if" scenarios to examine the impact of options on the company's financial statements?

a. changes in a product's sales price
b. advertising expenses that will not change
c. increases in a product's variable manufacturing costs
d. the quantity of product that is expected to sell

10. If a company has a $25,000 reduction in sales and an increase of $7,000 in fixed costs with a contribution margin ratio of 34 percent, by how much will net income change?

a. decrease $1,500
b. decrease $32,000
c. increase $1,500
d. decrease $15,500

12. Hoagland Company has the following product information:

Sales price $6.00 per unit
Variable costs $2.00 per unit
Fixed costs $12,000
Units sold 20,000

What is the break-even point in sales dollars?
a. $12,000
b. $15,000
c. $18,000
d. $21,000

13. Greer Corp. has the following product information:

Sales price $6.00 per unit
Contribution margin ratio 35%
Fixed costs $42,000

What is the break-even point in units?
a. 7,000
b. 2,471
c. 20,000
d. 1 8,850

14. Greer Corp. has the following product information:

Sales price $6.00 per unit
Contribution margin ratio 35%
Fixed costs $42,000

How many units must Greer Corp sell in order to reach a target before-tax profit of $50,000?

a. 43,810
b. 44,000
c. 44,545
d. 45,105

15. Scuffy Company has the following product information:

Sales price $7.25 per unit
Variable costs $2.25 per unit
Fixed costs $10,000

What is the break-even point in units?

a. 1,380
b. 2,000
c. 4,445
d. 5,000

18. Which of the following is not an assumption of cost-volume-profit analysis?

a. Selling prices change only at the end of the month.
b. Costs can be thought of as fitting a linear function within the relevant range.
c. Sales mix is constant.
d. Inventory levels do not change.