Problema #1

Powertime, Inc., produces and sells electric lawn mowers for $250 each. The variable costs of each

mower total $160 while total monthly fixed costs are $22,500. Current monthly sales are $100,000.

The company is considering a proposal that will increase the selling price by 10%, increase total fixed

costs by 10% and increase unit sales to 500 units per month.

Required:

1) Compute the company's current break-even point in units.

2) What is the company's current margin of safety in units, dollars, and percentage?

3) Compute the company's margin of safety in units assuming the proposal is accepted.

4) Compute the increase or decrease in profit assuming the proposal is accepted.

Problema #2

Costs that might be incurred by service, merchandising, and manufacturing companies are described below:

\_\_\_ A. Sales commissions paid to sales associates in a department store

\_\_\_ B. Insurance on a factory producing MP3 players

\_\_\_ C. Chicken breasts used to make chicken sandwiches in a restaurant

\_\_\_ D. Rent on a storeroom used by Larry's Landscapers to store lawn equipment

\_\_\_ E. Salary of a supervisor in a Wal-Mart distribution center

\_\_\_ F. Wages paid to production workers in an automobile assembly plant

\_\_\_ G. Pepperoni sausage used by a restaurant to make pizza

\_\_\_ H. Shipping costs incurred by IBM to ship its computers to customers

\_\_\_ I. Depreciation of office equipment by Microsoft Corporation

\_\_\_ J. Electricity used to operate equipment in a factory

\_\_\_ K. Salary of the CEO of General Motors Corporation

\_\_\_ L. Lubricants used to maintain machinery in a textile factory

\_\_\_ M. Cost of metal cans used in a dog food factory

\_\_\_ N. Advertising costs incurred by AT&T

\_\_\_ O. Fuel costs for an airline

Required:

Classify each cost as variable (V) or fixed (F) with respect to volume or level of activity.

Problema #3

Farmington Corporation manufactures toaster ovens, generally selling from 20,000 to 30,000 units

per year. The following cost data apply to the activity levels shown:

Required

1. Complete the preceding table by filling the missing amounts for 25,000 and 30,000 units.

2. Assume that Farmington actually makes 28,000 units. What would be the total costs and the cost per unit at this level of activity?

|  |  |  |  |
| --- | --- | --- | --- |
| Number of Units | 20,000 | 25,000 | 30,000 |
| Total costs |  |  |  |
| Fixed | $300,000 |  |  |
| Variable | 200,000 |  |  |
| Total costs | $500,000 |  |  |
|  |  |  |  |
| Costs per Unit |  |  |  |
| Fixed | $15.00 |  |  |
| Variable | 10.00 |  |  |
| Total cost per unit | $25.00 |  |  |

Problema #4

Banning Company expects to incur $450,000 in manufacturing overhead costs during 2012. Other budget information follows:

Deparment A Deparment B Deparment C

Direct labor hours 10,000 2,000 8,000

Machine hours 3,000 5,000 7,000

Required:

1) Use direct labor hours as the cost driver to compute the allocation rate. Determine the amount of budgeted overhead cost for each department.

2) Use machine hours as the cost driver to compute the allocation. Determine the amount of budgeted overhead cost for each department.

Problema #5

Perez Company makes wooden tables, chairs, and lamp bases. Its expected overhead costs for the

next fiscal year are:

|  |  |
| --- | --- |
| Factory manager’s salary | $180,000 |
| Factory utilities | 100,000 |
| Depreciation on equipment | 70,000 |
| Miscellaneous factory costs | 50,000 |
| Total | $400,000 |

Perez uses direct labor hours as the cost driver to allocate overhead costs. Budgeted direct labor hours for the three products are: tables, 8,000; chairs, 10,000; lamp bases, 2,000.

Required:

a) Allocate the budgeted overhead costs to the three products.