1. The steps in management’s decision-making process are listed in random order below. Indicate the order in which steps should be executed.

\_\_\_ Make a Decision

\_\_\_ Review results of the decision

\_\_\_ identify the problem and assign responsibility.

\_\_\_Determine and evaluate possible courses of action.

2. Bogart Company is considering two alternatives. Alternative A will have revenues of $ 160,000 and cost of $ 100,000. Alternate B will have revenues of $ 180,000 and costs of $ 125,000. Compare Alternative A with Alternative B showing incremental revenues, costs, and net income.

3. Ortega has made the following statements about decision making and incremental analysis. Identify true or false, and if false correct the statement.

\_\_ The first step in management’s decision making process is, “Determine and evaluate possible courses of actions”.

\_\_ The final step in management’s decision making process is to actually make the decision.

\_\_ Accounting’s contribution to management’s decision making process occurs primarily in evaluating possible courses of action and reviewing the results.

\_\_In making business decisions, management ordinarily only considers financial information because it is objectively determined.

\_\_ Decisions involve a choice among alternative courses of action.

\_\_ The process used to identify the financial data that change under alternative courses of action is called incremental analysis.

\_\_ Costs that are the same under all alternative courses of action sometimes affect the decision.

\_\_ When using incremental analysis, some costs will always change under alternative courses of action, but revenues will not.

\_\_ Variable costs will change under alternative courses of action, but fixed costs will not.

4. Clean Fiber Company is the creator of Y-Go, a technology that weaves silver into fabrics to kill bacteria and odor on clothing while managing heat. Operating at capacity, the company can produce 1,000,000 undergarments of Y-Go per year. The per unit and the total costs for an individual garments when the company operates at full capacity are as follows:

|  |  |  |
| --- | --- | --- |
|  | **Per Undergarment** | **Total** |
| Direct Materials | $ 2.00 | $ 2,000,000.00 |
| Direct Labor | $ 0.75 | $ 750,000.00 |
| Variable Manufacturing Overhead | $1.00 | $ 1,000,000.00 |
| Fixed Variable Overhead | $ 1.50 | $ 1,500,000.00 |
| Variable Selling Expenses | $0.25 | $ 250,000.00 |
|  | **----------------------------** | **----------------------------** |
| **Totals:** | **$ 5.50** | **$ 5,500,000.00** |
|  |  |  |
|  |  |  |

The US Army has approached the company and expressed an interest in purchasing 250,000 Y-GO undergarments for soldiers in extremely warm climates. The Army would pay the unit cost for direct materials, direct labor, and variable manufacturing overhead costs. In addition the Army has agreed to pay an additional $1 per garment to cover the other cost and provide profit. Presently Clean Fiber is operating at 70% capacity and does not have any other potential buyers for Y-Go. If Clean Fiber accepts the Army’s offer, it will not incur any variable selling expenses related to this order. Using incremental analysis, determine whether or not Clean Fiber should accept the Army’s offer.

5. Rachel recently opened her own basket weaving studio. She sells finished baskets as well as raw materials need by customers in order to weave baskets of their own. Rachel has put together a variety of raw material kit, each containing materials at various stages of completion. Due to space restriction, Rachel is unable to carry all varieties kits and has to select between two basic packages. Kit A costs Rachel $ 14 to make and sells at $30, and consists of undyed uncut reeds, (dye included in kit). Kit B includes cut reeds that have already been dyed; with this kit the consumer need only soak the reeds and weave the basket. Rachel is able to produce the second kit by using the basic materials included in the first kit and adding one hour of her own time, which she values at $18 per hour. Because she is more proficient than the average consumer, Rachel is able to make two kits of the dyed reeds in one hour, from on kit of undyed reeds. Kit B sells for $35.

Determine whether Rachel’s basket weaving shop should carry kit a or kit b. Prepare an incremental analysis to support your answer.