01. Which of the following statements is true with regard to product costs versus general, selling, and administrative costs?

A) Product costs associated with unsold units appear on the income statement as general expenses.

B) General, selling, and administrative costs appear on the balance sheet.

C) Product costs associated with units sold appear on the Income Statement as cost of good sold expense.

D) All of the above

02. Select the correct statement regarding fixed costs.

A) Because they do not change, fixed costs should be ignored in decision making.

B) The fixed cost per unit increases when volume increases.

C) The fixed cost per unit decreases when volume increases.

D) The fixed cost per unit does not change when volume decreases.

03. Fixed cost per unit

A) decreases as production volume decreases.

B) is not affected by changes in the production volume.

C) increases as production volume increases.

D) decreases as production volume increases.

04. The activity director for Larry’s Hotel is planning an activity. She is considering alternative ways to set up the activity's cost structure. Select the **incorrect** statement from the following.

A) If the director expects a low turnout, she should use a fixed cost structure.

B) If the director expects a large turnout, she should attempt to convert variable costs into fixed costs.

C) If the director shifts the cost structure from fixed to variable, the level of risk decreases.

D) If the director shifts the cost structure from fixed to variable, the potential for profits will be reduced.

5. Select the **incorrect** statement regarding the contribution margin income statement.

A) The contribution margin approach for the income statement is acceptable for external reporting.

B) Contribution margin represents the amount available to cover fixed expenses and thereafter to provide profit.

C) The contribution margin approach requires that all costs be classified as fixed or variable.

D) Assuming no change in fixed costs, a $1 increase in contribution margin will result in a $1 increase in profit.

6. Once sales reach the breakeven point, each additional unit sold will

A) increase fixed cost by a proportionate amount.

B) reduce the margin of safety.

C) increase profit by an amount equal to the per unit contribution margin.

D) increase the company's operating leverage.

7. Select the **incorrect** break-even equation from the following:

A) Total contribution margin = total fixed costs

B) Total contribution margin = total variable costs

C) Total fixed costs / contribution margin ratio = break-even sales in dollars

D) Total revenue = total costs

8. Which of the following would represent the order in which most master budgets are prepared?

A) Sales, Purchases, Cash, Income Statement

B) Purchases, Cash, Sales, Income Statement

C) Purchases, Sales, Cash, Income Statement

D) Sales, Income Statement, Cash, Purchases

9. With regards to financial statements, “pro forma” means

A) budgeted.

B) prepared in advance.

C) financial condition or position that can be expected if planning assumptions prove correct.

D) all of the above.

10. Select the response that indicates the correct sequence of product cost flows from production to sale.

A) Raw materials, work in process, finished goods, and cost of goods sold

B) Cost of goods sold, finished goods, work in process, raw materials

C) Work in process, finished goods, cost of goods sold

D) Raw materials, finished goods, cost of goods sold

11. Garrison Company developed a static budget at the beginning of the company's accounting period based on an expected volume of 4,000 units:   
  
    
  
If actual production totals 5,000 units, the flexible budget would show fixed costs of:   
A. $10,000.  
B. $2 per unit.  
C. $8,000.  
D. None of these.

12. The following static budget is provided:   
  
    
  
What will be the budgeted net income if 18,000 units are produced and sold?   
A. $31,000  
B. $180,000  
C. $400,000  
D. $42,000

13. The Fabio Company provides the following standard cost data per unit of product:   
  
    
  
The direct labor usage variance was   
A. $6,000 favorable.  
B. $6,000 unfavorable.  
C. $2,425 favorable.  
D. $2,425 unfavorable.