|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Thomas, Inc. estimates it will produce 1,200 homework machines during the next year with costs as follows:

|  |  |
| --- | --- |
| Direct materials | $200 per unit |
| Direct labor | $240 per unit |
| Variable overhead | $160 per unit |
| Fixed overhead (40% avoidable) | $300 per unit |

An outside supplier has offered to produce the machines for Thomas for $700 a unit. What is the incremental effect on profit for this make or buy decision? |
|  | Fox Company purchased 50 acres of land for $500,000 to develop a subdivision. Fox divided the land into two types of lots, waterfront and interior. Fox incurred $100,000 in site clearing, and an additional $70,000 for utility infrastructure for the property. Fox then divided the property into 8 waterfront lots and 32 interior lots. Fox will build homes on each lot costing $200,000 each. Each waterfront home will sell for $350,000, and each interior home will sell for $280,000. How much are the joint costs? |
|  | Foran, Inc. produces 3 different varieties of breakfast bars. Current production consists of 60,000 each of its nutty, fruity, and raisin breakfast bars. The costs of making each bar consists of $1.40 for direct materials, $0.20 for variable manufacturing overhead, $0.50 for direct labor, and $0.22 of allocated fixed manufacturing overhead. An outside supplier has offered to sell Foran fruity breakfast bars for $2.40 each and can supply all it needs. Foran has determined that 20% of the fixed overhead is avoidable if the company discontinues production of fruity breakfast bars. In addition, the company could lease the machine used to make the fruity bars to another company for $4,000 annually. How much is the incremental effect on profit if Foran buys the fruity breakfast bars? |
|  | Cosmos sells 3 meals in its restaurants: Meat Lovers, Veggie Treats, and Chicken Fingers. Changes in product lines do not affect demand of other products. Results of April are below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Meat | Veggie | Chicken |  |
|   | Lovers | Treats | Fingers | Total |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Units sold | 8,000 | 5,000 | 6,000 | 19,000 |
| Sales | $24,000 | $30,000 | $54,000 | $108,000 |
| Variable departmental costs | 9,600 | 17,800 | 31,200 | 58,600 |
| Direct fixed costs | 4,000 | 6,000 | 5,000 | 15,000 |
| Allocated fixed costs |   4,800 |   7,500 |   5,500 |   17,800 |
| Net income | $5,600 | ($1,300) | $12,300 | $16,600 |

How much is the incremental effect on profit if the company discontinues Veggie Treats?Young's Ice Cream Co. sells plain vanilla ice cream cones at the beach during summer for $1.50 each. The company has 50,000 total ice cream cones budgeted for summer. Each gallon of ice cream makes 20 ice cream cones. The cost of each gallon of ice cream is $22. Young's is considering whether it should buy a chocolate dipper so it can sell chocolate dipped cones for $2.00 each. It estimates it will sell 10,000 chocolate-dipped cones in addition to 40,000 plain vanilla cones if the change is made. The cost per cone of the chocolate dipping would be $0.40. How much is the incremental effect on profit if the company sells chocolate dipped cones?Outdoor Sports is considering an offer from a customer who wants to buy 3,000 pairs of boots at $28 a pair. The company normally sells 10,000 pairs of boots per month at $34 a pair. Variable costs are $25 per pair and fixed costs total to $20,000. The company has excess capacity. What is the effect on income if the offer from the customer is accepted?. Evergreen Company grows potatoes. Each acre of potatoes yields approximately 150 bushels of baking quality potatoes and 450 bushels of boiling potatoes. Evergreen sells baking potatoes for $7.90 per bushel and boiling potatoes for $0.70 per bushel. The total joint costs of growing and harvesting all bushels of potatoes is $4,000. Evergreen is considering whether it should chop its boiling potatoes and sell as french fries. The chopping process would cost $1 per bushel, enabling Evergreen to be able to sell each bushel of french fries for $1.80. Waste is immaterial since Evergreen will cut the potatoes with skins. Under the relative sales value method, how much is the total cost to be allocated to boiling potatoes if Evergreen sells at split-off?Upton, Inc. plans to buy a machine for $65,000 that has an estimated salvage value of $7,000, and an estimated life of 4 years. Upton's required rate of return is 11%. The machine is expected to generate the following operating cash flows and income over the next 4 years:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Year 1 | Year 2 | Year 3 | Year 4 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Operating cash flows | $21,800 | $26,400 | $28,000 | $24,600 |
| Operating income | $7,300 | $11,900 | $13,500 | $10,100 |

How much is the accounting rate of return? |