✓ Your answer is correct.	
profit	
sales mix	
break-even	
sales price	

In order to convert the margin of safety from dollar form to percentage form, the margin of safety in dollars must be divided by the budgeted (or actual) sales in dollars. (Enter only one word per blank.)



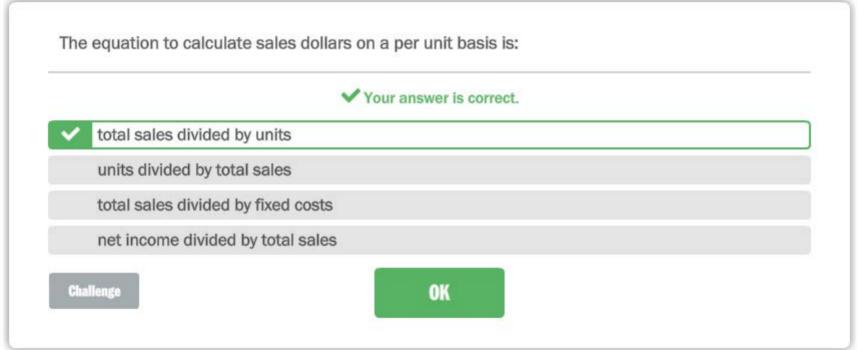


The break-even point is the level of sales at which the profit equals zero. (Enter only one word per blank.)





The contribution margin income statement allows users to easily judge the impact of a change in on profit. (Check all that apply.) ✓ Your answer is correct. variable cost per unit organizational structure selling price per unit volume of sales total fixed costs Challenge



To calculate the degree of operating leverage, divide contribution margin by net operating income.





total gross mangin		
total gross margin		
total variable expense		
net operating income		

Solving for the sales level needed to attain a target profit of \$0 is the same process as solving for the sales level needed to break even.



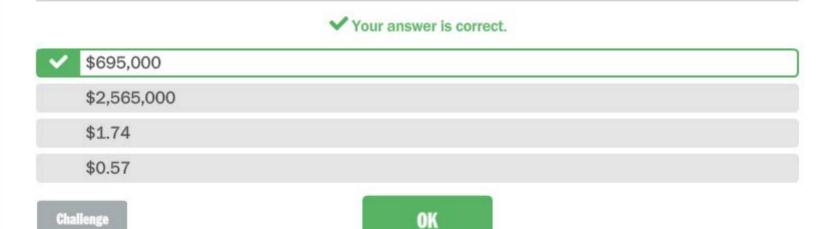


The break-even point indicates the sales volume needed to make contribution margin equal to fixed expenses. (Enter only one word per blank.)





Seth's Speakers has actual sales of \$1,630,000. Before the beginning of the year, the company determined that its break-even point was \$935,000. What is Seth's Speakers' margin of safety in dollars?



Total revenue equals the selling price per unit multiplied by the quantity sold. (Enter only one word per blank.)





Water World sells wake boards and water skis and pays commissions to their salespeople based on each product's sales price. Although the wake boards sell for a higher price than the skis, the skis have a higher contribution margin per unit than the wake boards. Which of the following are *true* in reference to sales commissions? (Check all that apply.)

Your answer is correct.

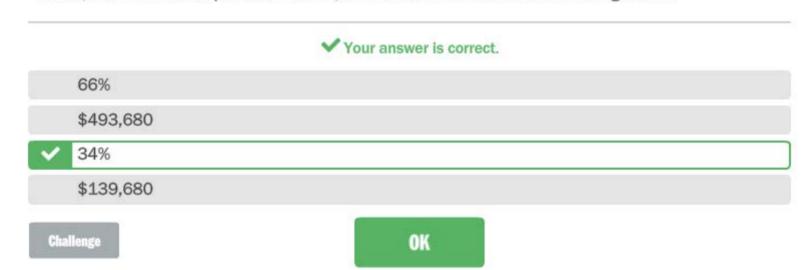
The company should not pay sales commissions on these products.

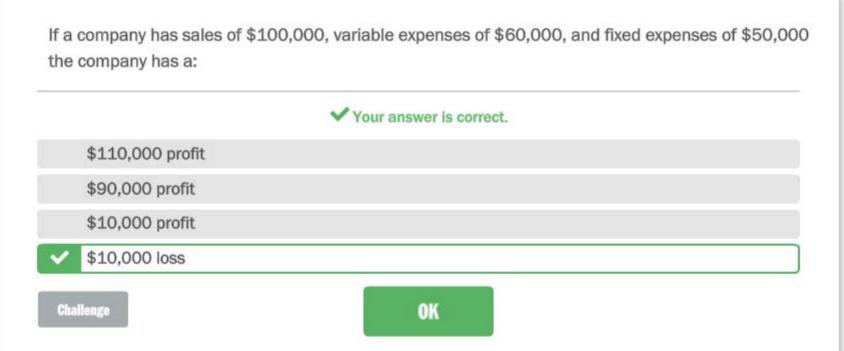
Sales commissions based on sales price would be ideal to use under these circumstances.

- Salespersons will be motivated to sell more wake boards as they will create a higher commission per unit for them.
- The company would rather see more skis sold as it creates the higher profit per unit for the company.

Challenge

Pool Time reported sales of \$1,452,000 last summer. The company incurred variable expenses of \$958,320 and fixed expenses of \$354,000. Calculate the contribution margin ratio.





Chrissy's Cupcakes has \$832,000 in sales and \$265,000 in fixed expenses. If the company's contribution margin ratio is 72%, what is its profit?



\$(32,040)

\$567,000

\$334,040

Profit cannot be calculated with the information provided.

Challenge

Profits can be estimated for any sales volume above the break-even point by multiplying the number of units sold above the break-even point by the unit contribution margin.





The margin of safety in dollars is the excess of the budgeted (or actual) sales dollars over the breakeven sales dollars (Enter only one word per blank).





Variable costs per unit is calculated by dividing total variable costs by total units. (Enter only one word per blank)





	✓ Your answer is correct.
greater than	
lesser than	
equal to	

The term "cost structure" refers to the relative proportion of variable and fixed costs in an organization. (Enter only one word per blank.)





Which of the following statements apply to companies that sell multiple products? (Check all that apply.)

✓ Your answer is correct.

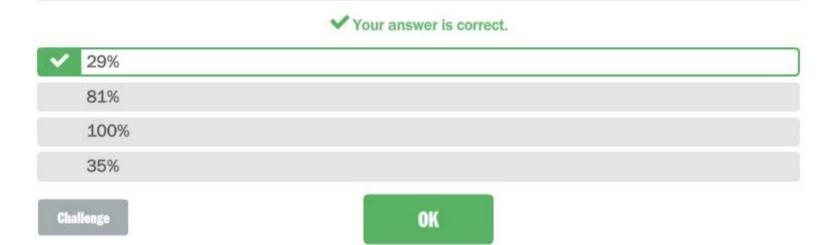
The contribution margin ratio approach to target profit analysis would likely be the approach which is more easily applied to such companies.

The contribution margin per unit approach to target profit analysis would likely be the approach which is more easily applied to such companies.

- Multiple products will more than likely have different contribution margin ratios for each individual product.
- ✓ Profits earned will more than likely depend on the sales mix of products.

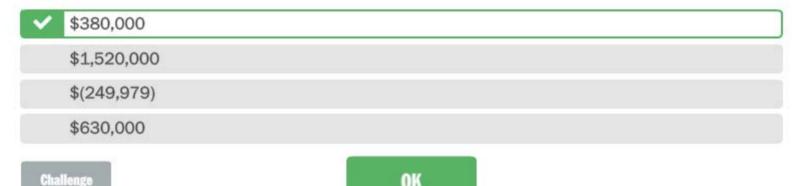
Challenge

The Cutting Edge sells ice skates. Total sales are \$845,000, total variable expenses are \$245,050 and total fixed expenses are \$302,000. Calculate the variable expense ratio.



Daisy's Dolls sold 30,000 dolls this year at \$40 each. The company incurred \$250,000 of fixed expense. Each doll's variable cost is \$19. What is Daisy's Dolls' profit?





When using incremental analysis, which of the following items are considered when making a decision? (Check all that apply.)

✓ Your answer is correct.

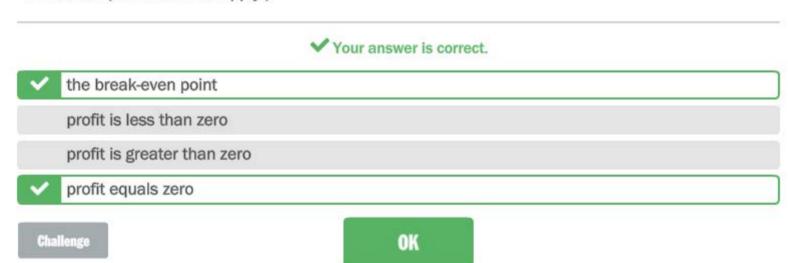
The volume that would occur regardless of the decision

- The change in volume resulting specifically from the decision
- The change in sales dollars resulting specifically from the decision
- The change in cost resulting specifically from the decision

The complete old income statement in comparison to the complete new income statement

Challenge

The single point where the total revenue line crosses the total expense line on the CVP graph indicates: (Check all that apply.)



The profit graph allows users to easily identify: (Check all that apply.) ✓ Your answer is correct. the sales volume required to reach the break-even point. total expenses incurred at any given sales volume. the profit at any given sales volume. Challenge

It is useful to represent sales, variable cost, and the contribution margin as percentages, as well as on a per unit basis, in order to easily apply those values to any sales volume. (Enter only one word per blank.)





To estimate the effect on profits for a planned increase in sales, multiply the increase in units sold by the unit contribution margin. (Enter only one word per blank.)





A company currently has sales of \$700,000 and a contribution margin ratio of 45%. As a result of increasing advertising expense by \$8,000, the company expects to increase sales to \$735,000. Calculate the impact this change would have on net operating income.

✓ Your answer is correct.

Net operating income would increase by \$15,750.

Net operating income would increase by \$7,750.

Net operating income would decrease by \$8,000.

Net operating income would decrease by \$12,250.

Challenge

Assuming the sales price remains constant, an increase in the variable cost per unit will decrease the contribution margin per unit.





Which of the following equations can be used to calculate the impact on net income for a change in sales dollars using the contribution margin ratio?



Change in total contribution margin x Contribution margin ratio

Change in sales dollars x Contribution margin ratio

Variable expense per unit - Contribution margin ratio

Change in sales dollars per unit - Contribution margin ratio

Challenge

When constructing a CVP graph, the vertical (y) axis represents dollars. (Enter only one word per blank)





✓ Your answer is correct.			
Selling pric	e per unit		
/ Variable co	st per unit		
/ Total fixed	cost		
Number of	batches produced		
/ Sales mix			

To prepare a CVP graph, lines must be drawn representing:



total revenue, total expense, and profit

total revenue, break-even point, and profit

total revenue, total expense, and total fixed expense

total revenue, total variable expenses, and total fixed expense

Challenge

	✓ Your answer is correct.	
operating leverage		
net operating income		
contribution margin		
break-even sales dollars		

✓ Your answer is correct.		
Net operati	ng income	
/ Sales mix		
Contributio	n margin per unit	
Total fixed	costs	

If operating leverage is high, a small percentage increase in sales can produce a much larger percentage increase in net operating income.





When constructing a CVP graph, the horizontal (x) axis represents unit volume. (Enter only one word per blank.)





On a profit graph, the sales volume where profit is zero is the break-even point. (Enter only one word per blank.)





Tasty Tangerine is currently selling 50,000 boxes of tangerines for \$25 per box. Variable cost per box is \$17 and fixed costs total \$260,000. A plan is being considered to increase the visual appeal of its packaging and reduce the selling price. The design change would result in a \$60,000 increase to fixed costs. Management believes the design change along with a \$2 reduction in the selling price per box would increase sales volume by 24,000 boxes. Which of the following is *true*?

✓ Your answer is correct.

Net operating income would increase by \$44,000.

Net operating income would increase by \$132,000.

Net operating income would decrease by \$16,000.

If the change is implemented, total contribution margin would increase by 44,000 ((74,000 boxes x \$6) - (50,000 boxes x \$8)). Additional contribution margin of 44,000 - \$60,000 in new fixed costs = a net operating income decrease of \$16,000.

Net operating income would decrease by \$104,000.

If a company with excess capacity has an opportunity to take an order in addition to its regular sales, the sales price per unit must cover which of the following costs? (Check all that apply.)



Variable manufacturing cost per unit

Any cost incurred by accepting the order

Fixed costs per unit for units included in the order

Total fixed costs

Challenge

The CVP graph evaluates CVP relationships over a wide range of activity levels. (Enter only one word per blank.)





CVP analysis is useful for companies with the need to answer which of the following questions? ✓ Your answer is correct. What should the factory look like? Who do we hire for the controller position? How can we increase net income? Would our employees use on-site childcare? Challenge

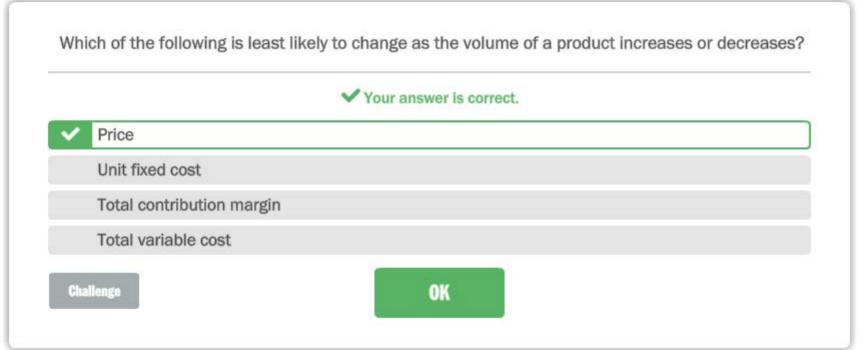
	✓ Your answer is correct.
tax purposes.	
external financial stateme	nt reporting.
CVP analysis.	
internal decision making.	

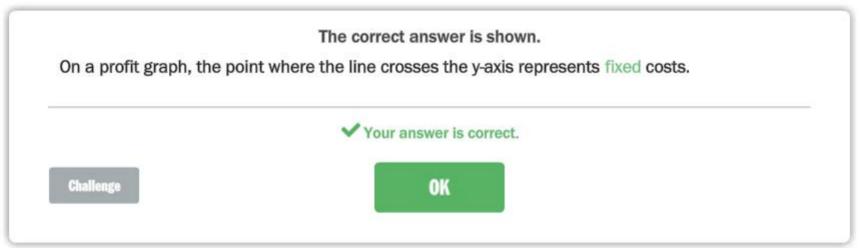
A company sold 750 units with a contribution margin of \$120 per unit. If the company has a breakeven point of 450 units, what is net operating income?





Challenge





Select all factors which determine whether a cost structure with higher variable costs is better than one with higher fixed costs. (Check all that apply.)



- The attitude of owners toward risk
- Long-run trends in sales

Average sales price per unit

Year-to-year fluctuations in the level of sales

Challenge

Bluin Corporation pays its salesperson a flat salary of \$5,750 per month and is considering paying her \$30 per unit instead. Current unit sales are 250 per month, but Bluin believes the compensation change will increase unit sales by 50%. Bluin's current contribution margin is \$100 per unit. If Bluin switches the compensation and sales grow as expected:

✓ Your answer is correct.

net operating income will decrease by \$7,500 per month

net operating income will decrease by \$5,500 per month

net operating income will increase by \$1,250 per month

net operating income will increase by \$7,000 per month

Current net operating income = $(\$100 \times 250) - \$5,750 = \$19,250$. With the change net operating income would be: $(\$100 - \$30) \times 250 \times 150\% = \$26,250$, an increase of \$7,000 per month.

Challenge

The cost structure a company chooses depends on factors such as long-run trends in sales, year-toyear fluctuations in the level of sales, and the attitude of the owners toward risk.

