Workshop Lecture 1 REVISION QUESTIONS

1. Which of the following describes a fixed cost?

   (a) Any overhead cost that is incurred in the factory of a manufacturing company.
   (b) Any selling, general or administrative cost incurred in a manufacturing company.
   (c) A cost per unit that remains constant within the relevant range of output.
   (d) A cost per unit which fluctuates with changes in output.

2. Which of the following defines absorbed manufacturing overhead?

   (a) Actual activity x predetermined overhead rate
   (b) Estimated activity x predetermined overhead rate
   (c) Estimated activity x actual overhead rate
   (d) Actual activity x actual overhead rate

Questions 3-6

Rubislaw Property Limited manufactures ceramic mugs, selling at £5 each. Budgeted fixed costs are £20,000 per quarter, with variable manufacturing costs of £30,000 at an output/sales level of 12,500 mugs per quarter. The company's salesman is paid strictly on a commission basis of 10% of sales achieved.

3. What is the annual break-even level of sales (in number of mugs)?

   (a) 9,524
   (b) 30,769
   (c) 34,483
   (d) 38,095

4. If quarterly sales rise to 13,000 mugs, what is the company's margin of safety?

   (a) 7.69%
   (b) 26.74%
   (c) 40.83%
   (d) 46.95%

5. If fixed costs per quarter rise to £25,000, what is the contribution margin ratio?

   (a) 2%
   (b) 42%
   (c) 52%
   (d) 58%

6. If the company decides to change its current plans by increasing advertising expenditure by £5,000 per quarter and increasing selling prices by 20%, what is the net profit on annual sales of 60,000 mugs?

(a) £ 80,000
(b) £ 86,000
(c) £101,000
(d) £116,000

7. Which of the following statements is true?

(a) The break-even model can be used to predict the level of sales achievable.
(b) Service department costs are never allocated to production departments.
(c) Standard costing is used only in manufacturing companies.
(d) When production is greater than sales, profit under variable costing is lower than under absorption costing.

8. AB Products adopts a policy of maintaining a finished goods stock equivalent to 40% of the following months sales. For August, the management accountant has forecast an opening stock of 45,000 units and a closing stock of 50,000 units.

Which of the following is correct?

(a) August sales are forecast to be 5,000 units higher than July sales
(b) August sales are forecast to be 12,500 units higher than July sales
(c) September sales are forecast to be 5,000 units higher than August sales
(d) September sales are forecast to be 12,500 units higher than August sales

9. Which of the following is correct?

(a) Opportunity costs are costs which are already incurred and which are unaffected by decisions.
(b) Sunk costs are total fixed costs, which remain constant over the relevant range of output.
(c) Process costs are costs which are accumulated for unique products where separate cost identification is essential.
(d) Relevant costs are costs which will alter as a consequence of a specific decision.

10. A product costs £20; the selling price will be set to give a margin of 20%. What is the Selling Price?

(a) £24
(b) £25