

PROBLEM ONE

Visionary Game Company sells 600,000 units per year of a particular video game CD at \$12 each. The current unit cost of the game consists of:

	Per Unit
Direct materials.....	\$3.00
Direct labor.....	\$1.00
Variable factory overhead.....	\$3.50
Fixed factory overhead.....	\$1.50
Total.....	<u>\$9.00</u>

At the beginning of the current year, Visionary received a special order for 10,000 of these CD's at a price of \$8 per CD. To fill the order, Visionary will have to rent additional assembly space at a cost of \$1,200.

If Visionary accepts the offer, it will be \$ _____ (better or worse) off.
circle one

PROBLEM TWO

The cost to Swank Company of manufacturing 20,000 units of a particular part is \$255,000, of which \$100,000 is fixed and \$155,000 is variable. The company can buy the part from an outside supplier for \$8 per unit.

If Swank buys the parts, it will be \$ _____ (better or worse) off.
circle one

PROBLEM THREE

D Lawrence designs and manufactures suede jackets. Budgeted cost for the coming year are:

	Unit costs (40,000 units)	Total
Variable manufacturing.....	\$50.00	\$ 2,000,000
Variable selling.....	\$20.00	\$ 800,000
Fixed manufacturing.....	\$10.00	\$ 400,000
Fixed operating.....	\$5.00	\$ 200,000
	<u>\$85.00</u>	<u>\$ 3,400,000</u>

The management of D Lawrence is considering a special order from Discount Apparel for an additional 10,000 jackets. These jackets would carry the Discount Apparel label, rather than the D Lawrence label. Although D Lawrence regularly sells its jackets to retail stores at a price of \$150 each, Discount Apparel has offered to pay only \$80 per jacket. However, because no sales commissions would be involved with this special order, D Lawrence will have variable selling costs of only \$3 per jacket on these sales. D Lawrence has sufficient capacity to accept the offer and believes that the offer would not affect its regular sales.

If the offer is accepted, D Lawrence will be \$ _____ (better or worse) off.
circle one

PROBLEM FOUR

Avalone Company is considering investing in new, highly efficient machinery. It would cost \$900,000 and have an estimated life of 4 years and a \$70,000 salvage value. Estimated annual operating results of the new machine are shown below:

Cost savings of operating the new machine	\$230,000
Depreciation expense on the new machine	\$225,000 (900,000 cost divided by 4 years)

What is the net present value of the proposed investment if the required return is 5%?

NPV = \$ _____

PROBLEM FIVE

Production and cost data for the Assembly Department last month are shown below:

	<u>Units</u>	<u>Percent Complete</u>	
		<u>Materials</u>	<u>Conversion</u>
Work in process, beginning	20,000	55%	30%
Started in production	180,000		
Completed and transferred out	160,000		
Work in process, ending	40,000	100%	25%

	<u>Materials</u>	<u>Conversion</u>
Work in process, beginning	\$ 25,200	\$ 24,800
Work in process, ending	\$ 334,800	\$ 239,210

Use the above information to compute:

Equivalent units of production for materials _____ equivalent units

Conversion cost per equivalent unit of production \$ _____

Cost of materials in ending inventory \$ _____