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QUESTION 1

Multi Frame Company has the following revenue and cost budgets for the two products it sells: The budgeted unit sales equal the current unit demand, and total fixed overhead for the year is budgeted at \$975,000. Assume that the company plans to maintain the same proportional mix. In numerical calculations, Multi Frame rounds to the nearest cent and unit. The total number of units needed to break even if the budgeted direct labor costs were \$2 for plastic frames instead of \$3 is

- A. 154,028 units.
- B. 144,444 units.
- C. 156,000 units.
- D. 146,177 units.

Correct Answer: B

If the labor costs for the plastic frames are reduced by \$1, the composite unit contribution margin will be \$27 $[(\$10 - \$2 - \$3) + (3)(\$15 - \$3 - \$5)]$. Hence, the new breakeven point is 144,444 units $[4 \text{ units} \times (\$975,000 \text{ FO} + \$27)]$.

QUESTION 2

Marketing research may rely on primary or secondary sources of information. Which research approach gathers primary information through moderated discussions?

- A. Surveys.
- B. Focus groups.
- C. Experimentation.
- D. Evidence of purchasing behavior.

Correct Answer: B

Focus group discussions are guided by a moderator and recorded for later analysis. This approach collects information about participant's attitudes toward a product, company, service, etc. Consumer goods research has popularized the use of focus groups.

QUESTION 3

The ABC Company manufactures components for use in producing one of its finished products. When 12,000 units are produced, the full cost per unit is \$35, separated as follows: Direct materials \$5, Direct labor 15, Variable overhead 10, Fixed overhead 5. The XYZ Company has offered to sell 12,000 components to ABC for \$37 each. If ABC accepts the offer, some of the facilities currently being used to manufacture the components can be rented as warehouse space for \$40,000. However, \$3 of the fixed overhead currently applied to each component would have to be covered by ABC's other products. What is the differential cost to the ABC Company of purchasing the components from the XYZ Company?

- A. \$8,000



- B. \$20,000
- C. \$24,000
- D. \$44,000

Correct Answer: B

QUESTION 4

Market-skimming pricing strategies are appropriate when

- A. No buyers want the product at a high price
- B. The costs of producing a small volume are low.
- C. Competitors can easily enter the market.
- D. The product is of poor quality.

Correct Answer: B

Market-skimming pricing is used when a new product is introduced at the highest price possible given the benefits of the product. For market skimming to work, the product must appear to be worth its price, the costs of producing a small volume cannot be so high that they eliminate the advantage of charging more, and competitors cannot enter the market and undercut the price.

QUESTION 5

All of the following are alternative marketable securities suitable for investment except

- A. U.S. Treasury bills.
- B. Eurodollars.
- C. Commercial paper.
- D. Convertible bonds.

Correct Answer: D

Marketable securities are near-cash items used primarily for short-term investment. Examples include U.S. Treasury bills, Eurodollars, commercial paper, money-market mutual funds with portfolios of short-term securities, bankers' acceptances, floating rate preferred stock and negotiable CDs of U.S. banks. A convertible bond is not a short-term investment because its maturity date is usually more than one year in the future and its price can be influenced substantially by changes in interest rates or by changes in the investee's stock price.