Course No:
Course Title: Managerial Accounting
Date:13/7/2011
No. of Questions: (4)
Time: 1.5 hours
Using Calculator (Yes)

University of Palestine

Midterm Exam.
Summer Semester 2011
Total Grade: 30

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Using Dictionary (No)

Answer the following four questions:

Q.1 : True or False **6 marks**

1. Management accounting has to strictly follow the rules of generally accepted accounting principles for the purposes of measurement and reporting ( )
2. The margin of safety is the excess of budgeted (or actual) sales over the Break-even sales ( )
3. Direct costs are costs that can be easily and conveniently traced to a unit of product or other cost object ( )
4. Advertising and research and development costs are committed fixed costs ( ).
5. Commissions based on sales dollars can lead to higher profits in a company ( )
6. The controller occupies a staff position in an organization ( )
7. Property taxes and insurance premiums paid on a factory building are examples of manufacturing overhead. ( )
8. Variable costs are costs whose per unit costs vary as the activity level rises and falls ( )

Q.2 : Choose the correct answer **8 marks**

1. **The three major elements of product costs in a manufacturing company are :**
   a. Direct materials, direct labor, and manufacturing overhead.
   b. Marketing cost, administrative Cost, and manufacturing overhead.
   c. Prime cost, sunk cost, and differential cost.
   d. Direct materials, direct labor, and fixed costs.
2. **The cost of fire insurance for a manufacturing plant is generally considered to be a:**
   a. product cost.
   b. period cost.
   c. variable cost.
   d. all of the above.
3. **Which of the following is not an element of manufacturing overhead?**
   a. Sales manager's salary.
   b. Plant manager's salary.
   c. Factory repairman's wages.
   d. Product inspector's salary.
4. **Using the following data for January, calculate the cost of goods manufactured:**

Direct materials...................................... $38,000
Direct labor... $24,000
Manufacturing overhead........................ $17,000
Beginning work in process inventory...... $10,000
Ending work in process inventory …...... $11,000

The cost of goods manufactured was:

a. $89,000.
b. $78,000.
c. $79,000.
d. $80,000.

5. **Beginning finished goods inventory was $50,000. The cost of goods manufactured for the month was $200,000. And the ending finished goods inventory was $60,000. What was the cost of goods sold for the month?**

a. $ 200,000. b. $280,000.
c. $190,000. d. Can’t be determined

6. **The following is last month's contribution format income statement:**

Sales (8,000 units) $800,000
Less variable expenses............. 500,000
Contribution margin 300,000
Less fixed expenses 200,000
Net income $100,000

What is the company's degree of operating leverage?

a. 0.125
b. 8.0
c. 3.0
d. 0.333

7. **Gossen Company is planning to sell 200,000 pliers for $4 per unit. The contribution margin ratio is 25%. If Gossen will break even at this level of sales, what are the fixed costs?**

a. $100,000. b. $160,000.
c. $200,000. d. $300,000.

8. **Marshall Company had actual sales of $600,000 when break-even sales were $420,000. What is the margin of safety ratio?**

a. 25%. b. 30%.
c. 33%. d. 45%.

Q.3 : Essay questions : Answer the two of the following questions **6 marks**

1. What are the four steps in the planning and control cycle?
2. Distinguish between variable cost and step- variable cost; plot the two costs on a graph.
3. A 10% decrease in the selling price of a product will have the same impact on net income as a 10% increase in the variable expenses. Do you agree? Why or why not?

Q.4 : Mini cases : Answer two of the following questions **10 marks**

1. Deines Company accumulates the following data concerning a mixed cost, using miles as the activity level.

	Miles Driven	Total Cost		Miles Driven	Total Cost
January	8,000	$14,150	March	8,500	$15,000
February	7,500	$13,600	April	8,200	$14,490

Required:

a. Using the high low method, estimate the variable and fixed cost elements of the annual cost of Deines Company.
b. Express the variable and fixed costs in the form $Y = a + bx$

2. **Menlo Company manufactures and sells a single product. The company's sales and expenses for last quarter follow:**

	Total	Per Unit
Sales	$450,000	$30
Less variable expenses	180,000	12
Contribution margin	270,000	$18
Less fixed expenses	216,000	
Net operating income	$ 54,000	

Required:

a. What is the quarterly break-even point in units sold and in sales dollars?
b. How many units would have to be sold each quarter to earn a target profit of $90,000? Use the contribution margin method.

c. Compute the company's margin of safety in both dollar and percentage terms.

Good Luck