1. Cost-plus pricing means that:
   - A. Selling price = Variable cost + (Markup percentage + Variable cost).
   - B. Selling price = Cost + (Markup percentage x Cost).
   - C. Selling price = Manufacturing cost + (Markup percentage x Manufacturing cost).
   - D. Selling price = Fixed cost + (Markup percentage x Fixed Cost).

2. Target cost related to price and profit means that:
   - A. Cost and desired profit must be determined before selling price.
   - B. Cost and selling price must be determined before desired profit.
   - C. Price and desired profit must be determined before costs.
   - D. Costs that can be achieved only if the company is at full capacity.

3. Classic Toys has examined the market for toy train locomotives. It believes there is a market niche in which it can sell locomotives at $80 each. It estimates that it could sell 10,000 of these locomotives annually. Variable costs to make a locomotive are expected to be $25. Classic anticipates a profit of $15 per locomotive. The target cost for the locomotive is:
   - A. $80.
   - B. $65.
   - C. $40.
   - D. $25.

4. Adler Company is considering developing a new product. The company has gathered the following information on this product.
   - Expected total unit cost $25
   - Estimated investment for new product $500,000
   - Desired ROI 10%
   - Expected number of units to be produced and sold 1,000

   - A. Markup percentage 10%; selling price $55.
B. markup percentage 200%; selling price $75.
C. markup percentage 10%; selling price $50.
D. markup percentage 100%; selling price $55.

5. Mystique Co. provides the following information for the new product it recently introduced.
   - Total unit cost $30
   - Desired ROI per unit $10
   - Target selling price $40
   What would be Mystique Co.’s percentage markup on cost?
   - A. 125%.
   - B. 75%.
   - C. 33 1/3%.
   - D. 25%.

6. Crescent Electrical Repair has decided to price its work on a time-and-material basis. It estimates the following costs for the year related to labor.
   - Technician wages and benefits $100,000
   - Office employee's salary and benefits $40,000
   - Other overhead $80,000
   A. $42.
   B. $34.
   C. $32.
   D. $30.

7. The Plastics Division of Weston Company manufactures plastic molds and then sells them to customers for $70 per unit. Its variable cost is $30 per unit, and its fixed cost per unit is $10. Management would like the Plastics Division to transfer 10,000 of these molds to another division within the company at a price of $40. The Plastics Division is operating at full capacity. What is the minimum transfer price that the Plastics Division should accept?
8. Assume the same information as question 7, except that the Plastics Division has available capacity of 10,000 units for plastic moldings. What is the minimum transfer price that the Plastics Division should accept?
   A. $10.
   B. $30.
   C. $40.
   D. $70.

9. AST Electrical provides the following cost information related to its production of electronic circuit boards.

<table>
<thead>
<tr>
<th>Per Unit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable manufacturing cost</td>
<td>$40</td>
</tr>
<tr>
<td>Fixed manufacturing cost</td>
<td>$30</td>
</tr>
<tr>
<td>Variable selling and administrative expenses</td>
<td>$8</td>
</tr>
<tr>
<td>Fixed selling and administrative expenses</td>
<td>$12</td>
</tr>
<tr>
<td>Desired ROI per unit</td>
<td>$15</td>
</tr>
</tbody>
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   What is its markup percentage assuming that AST Electrical uses the absorption-cost pricing?
   A. 16.67%.
   B. 50%.
   C. 54.28%.
   D. 118.75%.

10. Assume the same information as question 9 and determine AST Electrical's markup percentage using variable-cost pricing.
1. Cost-plus pricing means that:
   - A. Selling price = Variable cost + (Markup percentage + Variable cost).
   - B. Selling price = Cost + (Markup percentage x Cost).
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4. Adler Company is considering developing a new product. The company has gathered the following information on this product.

- Expected total unit cost: $25
- Estimated investment for new product: $500,000
- Desired ROI: 10%
- Expected number of units to be produced and sold: 1,000

- A. markup percentage 10%; selling price $55.
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6. Crescent Electrical Repair has decided to price its work on a time-and-material basis. It estimates the following costs for the year related to labor.

- Technician wages and benefits: $100,000
- Office employee's salary and benefits: $40,000
- Other overhead: $80,000

- A. $42.
7. The Plastics Division of Weston Company manufactures plastic molds and then sells them to customers for $70 per unit. Its variable cost is $30 per unit, and its fixed cost per unit is $10. Management would like the Plastics Division to transfer 10,000 of these molds to another division within the company at a price of $40. The Plastics Division is operating at full capacity. What is the minimum transfer price that the Plastics Division should accept?
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10. Assume the same information as question 9 and determine AST Electrical's markup percentage using variable-cost pricing.
   - A. 16.67%.
   - B. 50%.
   - C. 54.28%.
   - D. 118.75%.

Retake Test

1. Price takers are firms that control the price of the product they sell rather than having market forces control the price.
   - A. True
   - B. False

2. When a firm operates in a competitive market, it is important to emphasize cost minimization and control.
   - A. True
   - B. False

3. In a non-competitive market, prices are a function of the cost of the product or service.
   - A. True
   - B. False

4. Cost-plus pricing takes into consideration issues relating to demand for the product.
   - A. True
   - B. False
5. Time and material pricing is widely used in service industries.
   A. True
   B. False

6. The objective of transfer pricing is to maximize the return to the whole company.
   A. True
   B. False

7. A negotiated transfer price is the same whether the company has excess capacity or not.
   A. True
   B. False

8. If a company uses cost-based transfer prices, the transfer price is based on variable costs alone.
   A. True
   B. False

9. A market-based transfer price is based on existing market prices of competing goods and services.
   A. True
   B. False

10. As companies increase outsourcing, more components are transferred internally between divisions.
    A. True
    B. False
11. Which of the following are factors that can affect pricing decisions?
   - A. Fixed and variable costs.
   - B. Price sensitivity.
   - C. Patent or copyright protection.
   - D. All of the above.

12. Target cost is computed by subtracting:
   - A. market price from desired profit.
   - B. desired price from market price.
   - C. desired profit from market price.
   - D. market profit from desired price.

13. When using cost-plus pricing, target selling price is calculated by adding:
   - A. cost and cost times the markup percentage.
   - B. fixed costs and variable costs times the markup percentage.
   - C. cost and variable costs times the markup percentage.
   - D. fixed costs and cost times the markup percentage.

14. When seeking to set a unit price using cost-plus pricing, as the budgeted sales volume declines the unit selling price will
   - A. decrease.
   - B. stay the same.
   - C. increase.
   - D. vary randomly.
15. Which of the following is not one of the steps in applying time and material pricing?
   - A. Calculate the charges for a particular job.
   - B. Estimate the amount of material needed to complete the job.
   - C. Calculate the per hour labor charge.
   - D. All of the above are steps in applying time and material pricing.

16. When figuring out the per hour labor charge in applying time and material pricing, which of the following components should be included?
   - A. An allowance for desired profit.
   - B. Direct labor costs.
   - C. Selling, administrative and similar overhead costs.
   - D. All of the above.

17. Which of the following is not true about the material loading charge?
   - A. It is set by market forces, not by the firm.
   - B. It includes a desired profit margin on the materials.
   - C. It includes the cost of purchasing, receiving, handling, and storing materials.
   - D. It is expressed as a percentage of total estimated costs.

18. The three components added together to arrive at the total cost for a job under time and material pricing are
   - A. the variable labor charge, the materials themselves, and the material loading charge.
   - B. the labor charge, the materials themselves, and the material loading charge.
   - C. the fixed labor charge, the materials themselves, and the material loading charge.
   - D. the labor charge, the materials themselves, and the variable material loading charge.
19. When one division of a large firm sells to another division, the goods are recorded using a(n)
   □ A. market price.
   □ B. transfer price.
   □ C. estimated price.
   □ D. arbitrary price.

20. Which of the following are approaches for determining transfer prices?
   □ A. Market-based transfer prices.
   □ B. Negotiated transfer prices.
   □ C. Cost-based transfer prices.
   □ D. All of the above.

21. The negotiated transfer price is determined by
   □ A. flipping a coin to see who gets the price they want.
   □ B. having an objective third party decide the price.
   □ C. agreement of division managers.
   □ D. allowing the more profitable division to choose the price.

22. When a division is operating at full capacity, and another division requests to buy some of its product, the minimum transfer price that the selling division will accept is computed by
   □ A. adding variable costs and lost contribution margin per unit.
   □ B. subtracting lost contribution margin per unit from variable costs.
   □ C. adding opportunity cost and lost contribution margin per unit.
   □ D. adding fixed costs to lost contributions margin per unit.
23. Which of the following is the most popular method of determining transfer prices?
   - A. Negotiation.
   - B. Cost-based.
   - C. Market-based.
   - D. Variable-based.

24. The major difficulty with the market-based system for determining transfer prices is that
   - A. market prices are not considered to be objective.
   - B. division managers do not prefer this strategy.
   - C. a well-defined market does not exist in many cases.
   - D. proper economic incentives are not provided.

25. Under which cost approach to pricing must the markup include all fixed costs and the target ROI?
   - A. Variable-cost pricing.
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STOP
This is the end of the test. When you have completed all the questions and reviewed your answers, press the button below to grade the test.

Grade the Test

0% (0 out of 25 correct)
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