

Answers to Quiz 1\_2014 Winter (Total 16 marks)

Question 1 (total 10 marks, 1 mark/each question)

1. A
2. B
3. B
4. D
5. A
6. B (Explanation:  $32+16=\$48$ )
7. A (Explanation:  $60+10+18+32=\$120$ )
8. C
9. E

Explanation:

$$b = (\$22,080 - \$12,200) / (7,800 - 4,000) = \$2.60$$

$$\$22,080 = a + \$2.60 (7,800)$$

$$\$1,800 = a$$

10. E

Explanation:

$$y = \$1,800 + \$2.60x$$

$$y = \$1,800 + \$2.60(2,850)$$

$$y = \$9,210$$

Question 2 (6 marks)

a. (4 marks) Incremental change in revenue:

Product A increase in sales $\$10,000 \times 40\%$		\$4,000
Product B decrease in sales	<u>(8,000)</u>	
Incremental decrease in revenue		(\$4,000)
	Increase the sales	
Incremental change in variable costs:	cause increase of	
	A's DM	
Direct materials:	Product A increase $\$2,500 \times 40\%$	\$(1,000)
	Product B decrease	2,000
Direct labour :	Product A increase $\$2,000 \times 40\%$	(800)
	Product B decrease	<u>200</u>
Incremental decrease in variable costs		\$400
Equipment rental deduction		<u>100</u>
Incremental decrease in profits if product B is dropped		(\$3,500)

b. Up to 2 marks

- Drop product B may affect the sales of product A
- Employee morale problem because of unemployment
- The price of ~~direct~~ materials may change for producing product A

