

ANSWERS TO QUESTIONS

1. The following steps are frequently involved in management's decision-making process:
 - (a) Identify the problem and assign responsibility.
 - (b) Determine and evaluate possible courses of action.
 - (c) Make a decision.
 - (d) Review results of the decision.
2. Your roommate is incorrect. Accounting contributes to the decision-making process at only two points: (1) prior to the decision, accounting provides relevant revenue and cost data for each course of action, and (2) following the decision, internal reports are prepared to show the actual effect of the decision on net income.
3. Disagree. Incremental analysis involves the identification of financial data that change under alternative courses of action.
4. In incremental analysis, the important point to consider is whether costs will differ (change) between the two alternatives. As a result, (1) variable costs may change under the alternative courses of action and (2) fixed costs may not change.
5. The relevant data in deciding whether to accept an order at a special price are the incremental revenues to be obtained compared to the incremental costs of filling the special order.
6. The manufacturing costs that are relevant in the make-or-buy decision are those that will change if the parts are purchased.
7. Opportunity cost may be defined as the potential benefit that may be obtained by following an alternative course of action. Opportunity cost is relevant in a make-or-buy decision when the facilities used to make the part can be used to generate additional income.
8. The decision rule in a decision to sell a product or to process it further is: Process further as long as the incremental revenue from the additional processing exceeds the incremental processing costs.
9. A sunk cost is a cost that cannot be changed by any present or future decision. Sunk costs, therefore, are not relevant in a decision to retain or replace equipment.
10. Net income will be lower if an unprofitable product line is eliminated when the product line is producing a positive contribution margin and its fixed costs cannot be avoided or reduced.
11. Contribution margin per unit of limited resource is determined by dividing the contribution margin per unit of the product by the number of units of the limited resource required to produce one unit of the product.
12. The screening of proposed capital expenditures may be done by a capital budgeting committee which submits its findings to the officers of the company. The officers, in turn, select the projects they believe to be the most worthy of funding and submit them to the board of directors. The directors ultimately approve the capital expenditure budget for the year.