The Jersey Company provided services to a customer for $1,000 cash. Which of the following statements related to this transaction are false? (1/1)

a) Total assets would increase

b) Total liabilities would not be affected

c) Retained earnings would not be affected

d) Cash flow from operating activities would increase

Correct Answer: c

2) The following amounts were drawn from the records of Kansas Co: Total Assets = $1,100; Common Stock = $300; Retained Earnings = $200. Based on this information, total liabilities must be equal to: (1/1)

a) $300

b) $600

c) $800

d) $900

Correct Answer: b

3) During 2005 the following events occurred at Lance Co.: owners invested $10,000 of cash; revenue of $20,000 was earned; the company borrowed $4,000 from the bank; expenses of $13,000 were incurred; and $2,000 cash was distributed to the owners. What was Lance’s income for 2005? (1/1)

a) $1,000

b) $5,000

c) $7,000

d) $11,000

Correct Answer: c

4) Mars Co. borrowed $8,000 cash. As a result of this event: (1/1)

a) Assets increased

b) Expenses increased

c) Stockholders' equity increased

d) Revenue increased

Correct Answer: a

5) Nevada Co. purchased land for $2,000 cash. As a result of this event: (1/1)

a) Cash flow from operating activities would decrease

b) Cash flow from investing activities would increase

c) Cash flow from financing activities would decrease

d) Cash flow from investing activities would decrease

Correct Answer: d

6) **The following information applies to Questions 6 – 10:**

At the beginning of 2006 Oslo Co. had the following account balances:

Assets	**$10,000**
Liabilities	**6,000**
Common Stock	**3,000**
Retained Earnings	**1,000**

During 2006 the following cash events occurred:

1. Provided services to customers for $8,000
2. Repaid $2,000 of debt
3. Owners invested an additional $3,000 in the business
4. Incurred operating expenses of $5,000
5. Dividends amounted to $1,000

Oslo's net income for 2006 was:
(1/1)

a) $1,000

b) $2,000

c) $3,000

d) $4,000

Correct Answer: c

7) Total assets at the end of 2006 are: (1/1)

a) $3,000

b) $13,000

c) $15,000

d) $18,000

Correct Answer: b

8) Total liabilities at the end of 2006 are: (1/1)

a) $0

b) $4,000

c) $6,000

d) $8,000

Correct Answer: b

9) Common stock at the end of 2006 is: (1/1)

a) $3,000

b) $4,000

c) $5,000

d) $6,000

Correct Answer: d

10) Retained earnings at the end of 2006 are: (1/1)

a) $1,000

b) $2,000

c) $3,000

d) $4,000

Correct Answer: c

11) Razor Co. borrowed $1,000 from the Town & Country Bank. Which of the following elements of financial statements would not be immediately affected by this event? (1/1)

a) Assets

b) Liabilities

c) Revenues

d) Cash

Correct Answer: c

12) Which of the following statements is true? (1/1)

a) Net income is an account on the balance sheet

b) Cash flow from operating activities appears on the income statement

c) Beginning and ending cash balances appear on the statement of changes in stockholders' equity

d) Retained earnings is an account that appears on both the balance sheet and the statement of changes in stockholders' equity

Correct Answer: d

13) Which of the following statements is true? (1/1)

a) An increase in net income will always cause stockholders' equity on the balance sheet to increase

b) An increase in assets is always the result of revenues earned

c) A decrease in liabilities will be reflected in the investing section of the statement of cash flows

d) A distribution will decrease common stock on the balance sheet

Correct Answer: a

14) Which of the following would appear in the investing section of the statement of cash flows? (1/1)

a) A stock-brokerage firm earns revenue by providing investment advice

b) A business purchases land on which to build an office

c) The owners of a company invest cash in the business

d) A company repays money it had borrowed from the local bank

Correct Answer: b

Sterling Co. provided services to customers and received cash.

15) Which of the following choices reflects how this event would affect the company’s financial statements?

	Assets	=	Liab.	+	Equity	Rev	-	Exp.	=	Net Inc.	Cash Flow
A	I		N		N	I		N		N	I
B	I		N		I	I		N		I	I
C	N		N		I	I		N		I	I
D	N		N		N	I		N		I	I

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: b

1) **The following information applies to Questions 1 and 2:**

Yoga Co. had the following events in 2005:

- **Provided services to customers for $10,000 on account**
- **Incurred operating expenses of $7,000 on account**
- **Paid $5,000 on accounts payable**
- **Made a cash distribution of $1,000**
- **Received $6,000 cash from accounts receivable**
- **Borrowed $2,000 from the bank**

What was net income for Yoga in 2006?
(1/1)

- a) $1,000
- b) $2,000
- c) $3,000
- d) $7,000

Correct Answer: c

2) What was net cash flow from operating activities for Yoga?
(1/1)

a) $1,000

b) $2,000

c) $3,000

d) $4,000

Correct Answer: a

3) **The following information applies to Questions 3 – 6:**

The following account balances were drawn from the records of Atlanta Co. on December 31, 2007:

Notes Payable	**$10,000**		**Expenses**	**$25,000**
Revenue	**30,000**		**Accounts Receivable**	**10,000**
Accounts Payable	**2,000**		**Common Stock**	**11,000**
Land	**8,000**		**Dividends**	**2,000**
Cash	**12,000**		**Retained Earnings**	**?**

Total assets on Atlanta's balance sheet would be:

(1/1)

a) $28,000

b) $30,000

c) $35,000

d) $60,000

Correct Answer: b

4) Total liabilities on Atlanta's balance sheet would be: (1/1)

a) $2,000

b) $12,000

c) $22,000

d) $32,000

Correct Answer: b

For 2007, net income for Atlanta would be: (1/1)

5)

- a) $3,000
- b) $5,000
- c) $13,000
- d) $15,000

Correct Answer: b

6) Retained earnings on Atlanta’s balance sheet would be: (1/1)

- a) $18,000
- b) $9,000
- c) $7,000
- d) $3,000

Correct Answer: c

7) Jager Co. paid three years of rent in advance. This event would be classified as an/a: (1/1)

- a) Asset source transaction
- b) Asset use transaction
- c) Asset exchange transaction
- d) Claims exchange transaction

Correct Answer: c

8) On January 1, 2005, Kistler Co. received $3,000 for three years’ rent in advance. On December 31, 2005, Kistler made an adjustment to reflect the fact that one year of rent revenue had been earned. This adjustment is an example of an/a: (1/1)

- a) Asset source transaction
- b) Asset use transaction
- c) Asset exchange transaction
- d) Claims exchange transaction

Correct Answer: d

9) At the beginning of 2009, Logan Co. had $1,000 of supplies. During the year it purchased an additional $4,000 of supplies on account. Later, Logan paid $3,000 on accounts payable

related to the supplies. A count of supplies at the end of 2009 showed that supplies worth $500 were still on hand. Pertaining to supplies, how much expense and cash flow from operating activities would be shown on Logan's 2009 financial statements?

NOTE: This question and/or answer(s) has been modified on 11-27-07 and may not match your paper copy.
(1/1)

- [x] a) Expense: $4,500; Cash Flow: $3,000
- [ ] b) Expense: $3,000; Cash Flow: $3,000
- [ ] c) Expense: $3,000; Cash Flow: $4,000
- [ ] d) Expense: $4,500; Cash Flow: $4,000

Correct Answer: a

✓ 10) When a company incurs expenses: (1/1)

- [ ] a) Assets may increase
- [x] b) Liabilities may increase
- [ ] c) Cash may increase
- [ ] d) Common Stock may decrease

Correct Answer: b

✓ 11) Which of the following is an asset source transaction? (1/1)

- [x] a) Borrowed money from the bank
- [ ] b) Purchased land for cash
- [ ] c) Incurred operating expenses on account
- [ ] d) Incurred cash operating expenses

Correct Answer: a

✓ 12) Which of the following is an asset use transaction? (1/1)

- [ ] a) Borrowed money from the bank

b) Owners invested land in the business

c) Incurred operating expenses on account

d) Made cash distribution to owners

Correct Answer: d

13) Which of the following is an asset exchange transaction? (1/1)

a) Repaid a bank loan

b) Owners invested land in the business

c) Collected accounts receivable

d) Incurred operating expenses on account

Correct Answer: c

14) Which of the following is not an example of a deferral type item? (1/1)

a) Supplies inventory

b) Prepaid rent

c) Unearned revenue

d) Interest expense

Correct Answer: d

15) Which of the following items would not appear in the investing activities section of the statement of cash flows? (1/1)

a) Cash inflow from interest revenue

b) Cash outflow for the purchase of a certificate of deposit

c) Cash outflow for the purchase of land

d) Cash inflow from the sale of land

Correct Answer: a

107571		false	107571		false

1) Kramer Co. purchased land by issuing a note payable. The journal entry to record this transaction would require a: (1/1)

a) Debit to land and a credit to notes payable

b) Debit to notes payable and a credit to land

c) Debit to land and a debit to notes payable

d) Credit to land and a credit to notes payable

Correct Answer: a

2) How would the following journal entry affect the accounting equation?

Prepaid Rent	500	
Cash		500

(1/1)

a) Assets would increase and equity would decrease

b) Liabilities would increase and assets would decrease

c) Liabilities would decrease and assets would decrease

d) There would be no effect on total assets, liabilities, or equity

Correct Answer: d

3) Debit entries act to: (1/1)

a) Decrease assets

b) Increase retained earnings

c) Increase expenses

d) Increase liabilities

Correct Answer: c

4) What type event does the following journal entry describe?

Accounts Payable	1,000	
Cash		1,000

(1/1)

a) Provided services on account

b) Paid cash owed to suppliers

c) Incurred expenses on account

d) Collected cash from customers

Correct Answer: b

5) The following account balances are available for the Lincoln Co.

Cash	$5,000		Common Stock	$12,000
Accounts Payable	6,000		Land	20,000
Supplies	1,000		Notes Payable	4,000
Prepaid Rent	15,000		Retained Earnings	19,000

If the account balances above were placed in a trial balance, the total of the debits column would be equal to:

(1/1)

a) $27,000

b) $37,000

c) $41,000

d) $60,000

Correct Answer: c

6) Which of the following accounts would not be closed to retained earnings at the end of the accounting period? (1/1)

a) Wages Payable

b) Rent Expense

c) Dividends

d) Revenue

Correct Answer: a

7) James Co. had the following trial balance before its closing entries were made:

Account	Debit	Credit
Cash	$10,000	$
Land	8,000	
Notes Payable		4,000
Common Stock		2,000
Retained Earnings		4,000
Revenues		20,000
Expenses	12,000	
Totals	$30,000	$30,000

After closing entries have been made and posted to the accounts, the balance in Retained Earnings will be:

(1/1)

a) $4,000

b) $8,000

c) $12,000

d) $24,000

Correct Answer: c

8) Which of the following statements is true? (1/1)

a) A journal entry may have one account debited and two accounts credited

b) The trial balance never includes revenues and expenses

c) Liabilities accounts have debit balances

d) The amount of a company's total assets will equal the amount of its total debits

Correct Answer: a

9) Which of the following statements is true? (1/1)

a) Adjusting journal entries often involve cash

b) Adjusting journal entries are made after closing entries

c) Adjusting journal entries involve accruals but not deferrals

d) Adjusting journal entries are needed to correctly determine a company's net income

Correct Answer: d

10) An adjusting journal entry to record accrued salaries payable would involve: (1/1)

a) A debit to an asset account

b) A debit to a revenue account

c) A credit to a liability account

d) A credit to an expense account

Correct Answer: c

11) Which of the following journal entries would affect *cash flows from operating activities* on the Statement of Cash Flows?

A	Land	10,000	
	Cash		10,000
B	Prepaid Rent	10,000	
	Cash		10,000
C	Cash	10,000	
	Common Stock		10,000
D	Accounts Receivable	10,000	
	Revenue		10,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: b

12) **The following information applies to Questions 12 – 15:**

The following account balances are available for Salvia Co.:

Assets	**$10,000**		**Revenue**	**$7,500**
Liabilities	**7,000**		**Expenses**	**6,000**
Common Stock	**1,000**		**Net Earnings**	**1,500**
Retained Earnings	**2,000**			

What is Salvia's debt-to-asset ratio?
(1/1)

a) 30%

b) 43%

c) 60%

d) 70%

Correct Answer: d

13) What is Salvia’s return-on-equity ratio? (1/1)

a) 50%

b) 75%

c) 150%

d) 250%

Correct Answer: a

14) What is Salvia’s return-on-assets ratio? (1/1)

a) 15%

b) 50%

c) 70%

d) 75%

Correct Answer: a

15) If Salvia borrows $3,000 from the Local Bank, what will its new debt-to-assets ratio be? (1/1)

a) 54%

b) 77%

c) 100%

d) 130%

Correct Answer: b

1) Rayes Co. purchased $10,000 of merchandise inventory on account. Assuming Rayes uses the perpetual inventory method, which of the following correctly describes the journal entry needed to record this transaction? (1/1)

a) Debit cost of goods sold, and credit accounts payable

b) Debit inventory, and credit accounts payable

c) Debit purchases, and credit accounts receivable

d) Debit inventory, and credit cost of goods sold

Correct Answer: b

2) Which of the following is not a period cost? (1/1)

a) Interest cost

b) Advertising cost

c) Cost of salaries paid to sales staff

d) Cost of transportation-in

Correct Answer: d

3) Tulsa Co. purchased $6,000 of inventory for cash. Later in the same year one-half of the inventory was sold for $4,000 on account. Based on these facts alone, the amount of *net income* and *net cash flow from operating activities* for Tulsa Co. would be:

	Net Income	Cash Flow
A	$1,000	$3,000 outflow
B	$1,000	$6,000 outflow
C	$2,000	$3,000 outflow
D	$2,000	$6,000 outflow

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: b

4) **The following information applies to Questions 4 – 6:**

Vega Co. had the following account balances at the beginning of 2008:

Cash	**$10,000**		**Accounts Payable**	**$ 8,000**
Accounts Receivable	**20,000**		**Common Stock**	**12,000**
Inventory	**15,000**		**Retained Earnings**	**25,000**

The following events occurred during 2008:

- **Vega purchased $40,000 of inventory.**
- **Vega sold goods that cost $30,000 for $45,000.**
- **Operating expenses amount to $10,000.**

The gross margin that should be shown on the 2008 income statement is:
(1/1)

- a) $0
- b) $5,000
- c) $15,000
- d) $30,000

Correct Answer: c

5) The balance in retained earnings at December 31, 2008 would be: (1/1)

- a) $40,000
- b) $30,000
- c) $15,000
- d) $5,000

Correct Answer: b

6) The balance in inventory on December 31, 2008 would be: (1/1)

- a) $5,000
- b) $10,000
- c) $15,000
- d) $25,000

Correct Answer: d

7) **The following information applies to Questions 7 and 8:**

Walton Co. had the following account balances in 2007,

prior to the closing entries:

Purchases	**$30,000**		**Sales**	**$45,000**
Transportation-out	**2,500**		**Transportation-in**	**2,000**
Beginning Inventory	**10,000**		**Ending Inventory**	**9,000**
Purchase Returns	**3,000**		**Sales Discounts**	**1,000**
Sales Returns	**2,000**		**Unearned Revenue**	**10,000**

What amount of net sales would appear on Walton's income statement?
(1/1)

- a) $32,000
- b) $39,500
- c) $42,000
- d) $52,000

Correct Answer: c

8) Assuming Walton Co. uses the periodic inventory method, what was Walton's cost of goods sold for 2007? (1/1)

- a) $39,000
- b) $32,500
- c) $30,000
- d) $29,000

Correct Answer: c

9) Which of the following is true? (1/1)

- a) If the perpetual inventory method is used, a physical inventory count is not required
- b) Other things being equal, a company's net income and net cash flow from operating activities will be the same whether it uses the perpetual or periodic inventory method
- c) The payments of transportation-in and transportation-out costs both tend to decrease the total assets of a company
- d) A company's gross margin will decrease if it makes a

purchase of merchandise inventory at the end of the year

Correct Answer: b

10) The records at Xenon Co. indicate that $125,000 of inventory should be on hand on December 31, 2008. A physical count of the inventory reveals that $122,000 of inventory exists. The entry to reconcile these differences will cause: (1/1)

- a) Cost of goods sold to decrease by $3,000
- b) Net earnings to decrease by $3,000
- c) Net cash flows from operating activities to decrease by $3,000
- d) Total assets to remain the same

Correct Answer: b

11) Which of the following is an expense? (1/1)

- a) Accumulated depreciation
- b) Sales discount
- c) Cost of goods sold
- d) Transportation-in cost

Correct Answer: c

12) Benson Co. **purchased** merchandise inventory for cash. Benson uses the perpetual inventory method. Which of the following choices reflects how this event would affect the company’s financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	N		N		D		N		I		D		D
B	N		N		N		N		N		N		N
C	D		N		D		N		I		D		D
D	N		N		N		N		N		N		D

(0/1)

- a) A above
- b) B above

c) C above

d) D above

Correct Answer: d

13) Benson Co. **sold** merchandise inventory for cash. Benson uses the perpetual inventory method. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	I		N		N		I		I		N		I
B	I		N		I		I		I		I		I
C	D		N		D		N		I		D		N
D	N		N		N		N		N		N		N

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: b

14) **The following information applies to Questions 14 and 15:**

The following account balances are available for Carlsbad Co.:

Assets	**$100,000**		**Sales**	**$70,000**
Liabilities	**60,000**		**Cost of Goods Sold**	**45,500**
Common Stock	**10,000**		**Operating Expenses**	**6,500**
Retained Earnings	**30,000**		**Net Earnings**	**18,000**

What is Carlsbad's gross margin percentage?
(1/1)

a) 24%

b) 35%

c) 54%

d) 65%

Correct Answer: b

15) What is Carlsbad's return-on-sales ratio? (1/1)

a) 18%

b) 26%

c) 45%

d) 54%

Correct Answer: b

1) If prices are rising: (1/1)

a) Cost of goods sold will be higher if LIFO is used instead of FIFO

b) Inventory will be higher if LIFO is used instead of FIFO

c) A company's gross margin will be higher if LIFO is used instead of FIFO

d) Cash flows, including the effect of taxes, will be the same whether a company uses LIFO or FIFO

Correct Answer: a

2) If prices are rising, a company wishing to minimize tax cost would use: (1/1)

a) FIFO

b) LIFO

c) Weighted average

d) The inventory cost flow method used has no effect on tax cost

Correct Answer: b

3) **The following information applies to Questions 3 – 5:**

The following events occurred at Denver Co.:

January 2:	**Purchased 20 units @ $10**
January 4:	**Purchased 30 units @ $11**

January 7:	**Purchased 15 units @ $12**
January 10:	**Sold 25 units @ $18**

What will be the cost of goods sold if Denver Co. uses the FIFO cost flow method?
(1/1)

a) $195

b) $250

c) $255

d) $290

Correct Answer: c

4) What will be the cost of goods sold if Denver Co. uses the LIFO cost flow method? (1/1)

a) $255

b) $290

c) $300

d) $450

Correct Answer: b

5) What will be the cost of goods sold if Denver Co. uses the weighted average cost flow method? (1/1)

a) $273

b) $275

c) $319

d) $710

Correct Answer: a

6) **The following information applies to Questions 6 – 8:**

The following information is available for Phoenix Co.:

March 1:	**Beginning inventory was 10 units @ $20**
March 6:	**Purchased 12 units @ $19**
March 8:	**Purchased 8 units @ $24**
March 12:	**Sold 17 units @ $35**

What will Phoenix's ending inventory be if it uses the FIFO cost

flow method?
(1/1)

- a) $257
- b) $287
- c) $333
- d) $363

Correct Answer: b

7) What will Phoenix’s ending inventory be if it uses the LIFO cost flow method? (1/1)

- a) $363
- b) $333
- c) $387
- d) $257

Correct Answer: d

8) What will Phoenix’s ending inventory be if it uses the weighted average cost flow method (rounded to the nearest $1)? (0/1)

- a) $269
- b) $273
- c) $351
- d) $357

Correct Answer: a

9) Which of the following statements is false? (1/1)

- a) The cost of financing inventory is the same regardless of which inventory cost flow method is used
- b) The price that a company charges for the goods it sells will depend on the cost flow method it uses
- c) The lower-of-cost-or-market rule must be applied regardless of which inventory cost flow method is used
- d) The inventory cost flow method a company uses will probably depend on whether management expects the prices of goods to be rising or falling

Correct Answer: b

10) **The following information applies to Questions 10 and 11:**

The following events occurred at Austin Co.:

September 5:	**Purchased 10 units @ $20**
September 9:	**Purchased 10 units @ $22**
September 10:	**Sold 14 units @ $30**

What will Austin's gross margin be if it uses the FIFO cost flow method?
(1/1)

a) $300

b) $288

c) $132

d) $120

Correct Answer: c

11) What will Austin's gross margin be if it uses the LIFO cost flow method? (1/1)

a) $120

b) $132

c) $288

d) $300

Correct Answer: a

12) On April 1, 2007, a fire destroyed a store belonging to Aquinas Co. All of the store's inventory was destroyed in the fire, and the company is trying to determine what the insurance claim for lost inventory should be. The following information is available from the first three months of 2007:

Inventory at January 1	$ 3,000
Purchases from January 1 to March 31	$ 9,000
Purchase returns from January 1 to March 3	$ 1,000
Sales from January 1 to March 31	$10,000

Aquinas's gross margin has traditionally been 40%.

What was the amount of inventory lost in the fire? (1/1)

- a) $5,000
- b) $6,000
- c) $7,000
- d) $8,000

Correct Answer: a

13) The following selected events occurred at Quail Co. during 2006 and 2007:

November 5, 2006:	Purchased $1,000 of goods on account
November 30, 2006:	Paid for the goods purchased on November 5
January 7, 2007:	Sold the goods purchased on November 5 for $1,500
February 3, 2007:	Received payment for the goods sold on January 7

Based only on the facts above, which of the following statements is true, regarding *net cash flows from operating activities* (Net CFO) for 2006 and 2007?

	Net CFO 2006	Net CFO 2007
A	$1,000 outflow	$ 500 inflow
B	$1,000 outflow	$1,500 inflow
C	$ 0	$ 500 inflow
D	$ 0	$1,500 inflow

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: b

14) **The following information applies to Questions 14 and 15:**

The following account balances are available for Topaz

Co.:

Accounts Receivable	**$ 12,000**		**Stockholders' Equity**	**$ 70,000**
Inventory	**15,000**		**Sales**	**430,000**
Current Assets	**40,000**		**Cost of Goods Sold**	**260,000**
Total Assets	**200,000**		**Operating Expenses**	**135,000**
Accounts Payable	**18,000**		**Net Earnings**	**35,000**
Current Liabilities	**25,000**			
Total Liabilities	**130,000**			

What is Topaz's inventory turnover ratio? (1/1)

- a) 11 times
- b) 13 times
- c) 17 times
- d) 29 times

Correct Answer: c

15) On average, how many days does it take Topaz to sell its inventory? (1/1)

- a) 10 days
- b) 13 days
- c) 21 days
- d) 24 days

Correct Answer: c

1) Which of the following is true? (1/1)

- a) Internal controls would not be needed if all employees were honest
- b) Use of a Petty Cash Fund does not improve internal controls
- c) Separation of duties is not needed if employees are covered by fidelity bonds

d) Documentation of procedures is not needed in a computerized system

Correct Answer: b

2) The use of prenumbered documents: (1/1)

a) Is an example of physical controls

b) Is a way of reducing printing costs

c) Helps prevent employees from failing to record transactions

d) Is helpful only where the receipt of cash is involved

Correct Answer: c

3) Which of the following is true? (1/1)

a) Good hiring and training procedures are intended to help eliminate the need for performance evaluations

b) The person who writes the checks should be responsible for insuring that they are reconciled to the bank statement

c) Physical control of assets is an element of administrative controls

d) Proper separation of duties will eliminate many opportunities for fraud by employees

Correct Answer: d

4) The Cash Short and Over account is always: (1/1)

a) An asset account

b) An expense account

c) A revenue account

d) An account closed to retained earnings at year-end

Correct Answer: d

5) **Use the following designations for Questions 5 and 6:**

A bank reconciliation consists of two parts. One part begins with the Balance on the Bank Statement; this is

designated the “bank side.” The other part begins with the Unadjusted Balance in the Cash Account; this is designated as the “book side.”

Which of the following is true?
(1/1)

a) A deposit in transit requires an adjustment on the bank side

b) An NSF check requires an adjustment on the bank side

c) A note receivable collected for the company by the bank requires an adjustment on the bank side

d) Adjusting journal entries relate to bank reconciliation items that required adjustments on the bank side

Correct Answer: a

6) Which of the following is false? (1/1)

a) A bank service charge requires an adjustment on the book side

b) Interest earned on a checking account requires an adjustment on the book side

c) Outstanding checks require an adjustment on the book side

d) An error made by the company's bookkeeper in recording a check that the company wrote requires an adjustment on the book side

Correct Answer: c

7) Which of the following statements about the use of a Petty Cash Fund is false? (1/1)

a) Journal entries are not made when individual payments are made from petty cash

b) Payments from petty cash are so small that receipts do not need to be kept

c) The Petty Cash Fund is an example of an imprest fund

d) The custodian of the Petty Cash Fund is an example of an employee who should be covered by a fidelity bond

Correct Answer: b

8) Which of the following correctly describes the effects on the accounting equation caused by a company replenishing its Petty Cash Fund?

	Assets	Liabilities	Equity
A	Decrease	None	Decrease
B	Decrease	Decrease	None
C	None	Increase	Decrease
D	Increase	None	Increase

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: a

9) The following information is available for Kelly Co.:

- On August 31, 2006, the unadjusted balance in the Cash account was $2,914
- There was a deposit in transit of $376
- There was a bank service charge of $30
- There were outstanding checks that totaled $262
- A customer's NSF check of $41 was reported on the bank statement

The true cash balance for Kelly Co. on August 31, 2006 is:

(1/1)

- a) $2,308
- b) $2,843
- c) $2,957
- d) $3,039

Correct Answer: b

10) The bank reconciliation for Shark Co. included an adjustment for a customer's NSF check. The correct journal entry to record this adjustment is: (1/1)

- a) Debit Expenses and credit Cash

b) Debit Accounts Payable and credit Cash

c) Debit Accounts Receivable and credit Cash

d) Debit Cash and credit Accounts Receivable

Correct Answer: c

11) If an auditor finds that a company has **not** prepared its financial statements in accordance with GAAP, which type of audit opinion should the auditor issue? (1/1)

a) Unqualified

b) Qualified

c) Disclaimer

d) Adverse

Correct Answer: d

12) If an auditor finds that a company has prepared its financial statements in accordance with GAAP, which type of audit opinion should the auditor issue? (1/1)

a) Unqualified

b) Qualified

c) Disclaimer

d) Adverse

Correct Answer: a

1) **The following information applies to Questions 1 and 2:**

The following information is available for Columbia Co. for 2005:

Sales (all on account)	**$50,000**
Beginning accounts receivable	**0**
Cash collected from accounts receivable	**43,000**
Uncollectible accounts are estimated to be 1% of Sales on account.	
No accounts receivable had been written off during the year.	

NOTE: This question and/or answer(s) has been modified on 8-21-08 and may not match your paper copy.

What was Columbia's uncollectible accounts expense for 2005?

(1/1)

- a) $500
- b) $430
- c) $70
- d) $0

Correct Answer: a

2) What was the net realizable value of Columbia’s accounts receivable at the end of 2005? (1/1)

- a) $6,500
- b) $7,000
- c) $7,500
- d) $49,500

Correct Answer: a

3) **The following information applies to Questions 3 and 4:**

The following information is available for Miami Co. for 2006:

Sales (all on account)	**$100,000**
Beginning accounts receivable	**7,000**
Cash collected from accounts receivable	**89,700**
Beginning balance in allowance for doubtful accounts	**350**
Uncollectible accounts are estimated to be 2% of credit sales.	

What was Miami's uncollectible accounts expense for 2006? (1/1)

- a) $300
- b) $340
- c) $1,794
- d) $2,000

Correct Answer: d

4) What was the net realizable value of Miami’s accounts receivable at the end of 2006? (1/1)

a) $17,000

b) $15,000

c) $14,950

d) $10,000

Correct Answer: c

5) Which of the following is the correct way to record uncollectible accounts expense?

NOTE: This question and/or answer(s) has been modified on 10-7-09 and may not match your paper copy.
(1/1)

a) Debit uncollectible accounts expense and credit accounts receivable

b) Debit allowance for doubtful accounts and credit accounts receivable

c) Debit allowance for doubtful accounts and credit uncollectible accounts expense

d) Debit uncollectible accounts expense and credit allowance for doubtful accounts

Correct Answer: d

6) Boise Co. wrote off a customer's account receivable that had a balance of $500. What effect did this have on Boise's total assets? (1/1)

a) Total assets did not change

b) Total assets increased

c) Total assets decreased

d) The answer depends on what the total assets were prior to the write-off

Correct Answer: a

7) **The following information applies to Questions 7 and 8:**

On September 1, 2008, Madison Co. loaned $5,000 to Wholesale Co., one of its suppliers, so Wholesale would

be able to deliver goods to Madison on time. The note had a one-year term and an interest rate of 9%.

How much interest revenue was recognized by Madison in 2008?
(1/1)

- a) $450
- b) $300
- c) $150
- d) $0

Correct Answer: c

8) How much interest revenue was recognized by Madison in 2009? (1/1)

- a) $450
- b) $300
- c) $150
- d) $0

Correct Answer: b

9) On December 31, 2005, Dakota Co. recorded the estimated uncollectible accounts expense it expects to incur as the result of sales made on account during the current year. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	N		N		N		N		N		N		N
B	D		N		D		N		I		D		N
C	D		N		D		D		N		D		N
D	N		N		N		N		N		N		N

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: b

10) During 2006, Dakota wrote off customers' accounts receivables deemed to be uncollectible. Dakota uses the allowance method to account for uncollectible accounts expense. Which of the following choices reflects how writing-off the uncollectible accounts would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	N		N		D		D		N		D		N
B	N		N		N		D		N		D		N
C	D		N		D		N		I		D		N
D	N		N		N		N		N		N		N

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

11) The following account balances are available for Michigan Co.:

Accounts Receivable	$ 10,000		Sales	$80,000
Total Assets	100,000		Cost of Goods Sold	55,000
Accounts Payable	18,000		Operating Expenses	41,000
Common Stock	15,000		Net Earnings	14,000
Retained Earnings	20,000			

What are Michigan's *accounts receivable turnover ratio* and *average days to collect accounts receivable*?

	A/R Turnover	**Av. Days to Collect A/R**
A	4.4 times	5 days
B	4.4 times	83 days
C	8.0 times	36 days
D	8.0 times	46 days

(0/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

12) Which of the following statements is true? (1/1)

- a) A company would prefer its accounts receivable turnover ratio to be higher rather than lower
- b) The higher a company's accounts receivable turnover ratio, the longer it takes it to collect its accounts receivables
- c) Other things equal, the faster a company collects its accounts receivable, the higher its costs of making credit sales will be
- d) The only significant cost of making credit sales is uncollectible accounts expense

Correct Answer: a

13) **The following information applies to Questions 13 – 15:**

The following account balances are available for Nebraska Co.:

Accounts Receivable	**$ 12,000**		**Stockholders' Equity**	**$ 70,000**
Inventory	**15,000**		**Sales**	**430,000**
Total Assets	**200,000**		**Cost of Goods Sold**	**260,000**
Accounts Payable	**18,000**		**Operating Expenses**	**135,000**
Total Liabilities	**130,000**		**Net Earnings**	**35,000**

What is Nebraska's inventory turnover ratio? (1/1)

- a) 11 times
- b) 13 times
- c) 17 times
- d) 29 times

Correct Answer: c

14) On average, how many days does it take Nebraska to sell its inventory? (1/1)

- a) 10 days
- b) 13 days

c) 21 days

d) 24 days

Correct Answer: c

15) What is Nebraska's accounts receivable turnover ratio? (1/1)

a) 17 times

b) 22 times

c) 29 times

d) 36 times

Correct Answer: d

1) Toronto Co. made a basket purchase for $180,000 that included land, a building, and equipment. The estimated market values of the three assets were: land, $80,000; building, $90,000; and equipment, $30,000. How much cost should be allocated to the land? (1/1)

a) $88,889

b) $80,000

c) $72,000

d) $60,000

Correct Answer: c

2) Which of the following correctly matches the type of long-term asset with the term used to identify how that asset's cost is expensed?

	Building	**Oil Reserve**	**Copyright**
A	Amortization	Depreciation	Depletion
B	Depletion	Amortization	Depletion
C	Amortization	Depletion	Depreciation
D	Depreciation	Depletion	Amortization

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

3) On January 1, 2005, the Windsor Co. purchased a machine for $25,000. The machine had an expected useful life of five years and estimated salvage value of $5,000. Windsor uses the double-declining balance method of depreciation. What amount of depreciation should Windsor recognize in 2006? (1/1)

- a) $8,000
- b) $6,000
- c) $5,000
- d) $4,000

Correct Answer: b

4) Which of the following statements regarding depreciation methods is true? (1/1)

- a) Use of double-declining balance versus straight-line causes cash flows to be lower
- b) Use of double-declining balance versus straight-line causes cash flows to be higher
- c) Use of double-declining balance versus straight-line has no effect on cash flows
- d) Use of double-declining balance versus straight-line causes cash flows to be lower in the early years of an asset's life and higher in the later years of an asset's life

Correct Answer: c

5) On January 1, 2005, the Alberta Co. purchased a new furnace for $26,000. The furnace had an expected useful life of 10 years and estimated salvage value of $2,000. If Alberta uses the straight-line method of depreciation, what would be the depreciation expense on the furnace for 2006, and the book value of the furnace as of December 31, 2006?

	2006 Depr. Exp.	**Dec. 2006 Book Value**
A	$2,400	$21,200
B	$2,400	$19,200
C	$2,600	$20,800
D	$2,600	$18,800

(1/1)

- a) A above
- b) B above

c) C above

d) D above

Correct Answer: a

6) On January 1, 2005, Moss Co. purchased equipment that cost $10,000 and had an expected life of four years and estimated salvage value of $2,000. For 2005, the amount of expense that should be shown on Moss' income statement, and cash flow from *investing* activities that should be shown on its statement of cash flows would be:

	Expense	Cash Flow
A	$2,500	$ 0
B	$2,500	$10,000
C	$2,000	$ 0
D	$2,000	$10,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

7) On January 1, 2005, Nectar Co. purchased equipment that cost $18,000 and had an expected life of six years and estimated salvage value of $3,000. For 2006, the amount of expense that should be shown on Nectar's income statement and accumulated depreciation that should be shown on its balance sheet would be:

	Expense	Accumulated Depreciation
A	$3,000	$3,000
B	$3,000	$6,000
C	$2,500	$2,500
D	$2,500	$5,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

8) Regina Co. owns and operates a copper mine. The company paid $1,000,000 for the mine, which is expected to produce 50,000 tons of copper ore over its 10-year life. During 2007, 4,000 tons of ore were extracted. What amount of depletion should Regina record for 2007? (1/1)

- a) $100,000
- b) $125,000
- c) $80,000
- d) $20,000

Correct Answer: c

9) Which of the following is false? (1/1)

- a) MACRS is the depreciation method most companies use for income tax purposes
- b) A company that uses MACRS for tax purposes must use another depreciation method for financial reporting (GAAP) purposes
- c) Under MACRS, the shorter the period over which an asset is depreciated, (e.g., 5-year property versus 7-year property), the lower the amount of taxes the company will have to pay
- d) Companies using MACRS are prohibited from using the "half-year convention"

Correct Answer: d

10) In 2007, Calgary Co. paid $15,000 cash to purchase a truck. The company recorded depreciation of $3,000 on the asset for that year. What was the effect of these events on Calgary's cash flows for 2007? (1/1)

- a) $3,000 decrease
- b) $15,000 decrease
- c) $18,000 decrease
- d) There was no effect on cash flows

Correct Answer: b

11) Spokane Co. purchased a machine in 2005 for $12,000. The machine had an estimated useful life of 10 years and an expected salvage value of $2,000. Spokane uses the straight-

line method of depreciation. At the beginning of 2009 Spokane spent $3,000 to improve the quality of the machine. If accumulated depreciation at December 31, 2008 was $4,000, what would be the depreciation expense for 2009? (1/1)

a) $1,833

b) $1,500

c) $1,300

d) $1,000

Correct Answer: b

12) Which of the following is true? (1/1)

a) The book value of an asset is its estimated market value

b) The primary purpose of recording depreciation expense on the income statement is to reduce income tax expense

c) Recording depreciation expense decreases the book value of the asset in the year it was used to produce revenue

d) The accumulated depreciation for an asset provides the cash needed to replace the asset at the end of its useful life

Correct Answer: c

13) Chime Co. purchased an asset in 2005 and estimated it would have a useful life of five years. At the beginning of 2007 Chime revised its estimate of the asset's life to a total of seven years (versus five years). This change had no effect on Chime's income taxes. Regarding this revision, which of the following is true? (1/1)

a) The change in the estimate will require that the financial statements for 2005 and 2006 be restated

b) Because of the change in the estimate, net income for 2007 will be higher than if the change in the estimate had not been made

c) Because of the change in the estimate, cash flows for 2007 will be higher than if the change in the estimate had not been made

d) Because of the change in the estimate, cash flows for 2007 will be lower than if the change in the estimate had not

been made
Correct Answer: b

14) Drink Co. purchased Bottle Co. for $1,000,000 and agreed to assume its liabilities. Prior to the purchase the balance sheet for Bottle Co. showed the following:

Cash	$100,000		Liabilities	$200,000
Inventory	400,000		Common Stock	300,000
Equipment (net)	700,000		Retained Earnings	700,000

An independent appraiser estimated the market value of the inventory to be $350,000 and the market value of the equipment to be $500,000. How much goodwill, if any, should Drink record for this purchase?

(0/1)

a) $0

b) $50,000

c) $200,000

d) $250,000

Correct Answer: d

15) Quick Co. recorded depreciation on its equipment. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		N		D		N		I		D		D
B	N		N		N		N		I		D		N
C	D		N		D		N		I		D		N
D	N		N		D		N		N		N		D

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: c

1) On October 1, 2006, Boston Co. borrowed $10,000 from Merchants' Bank. The loan carried a 12% interest rate and a one-year term. Which of the following statements related to this event are true? (1/1)

a) Boston Co. would show a $10,000 cash inflow in the investing section of its 2006 statement of cash flows

b) On Boston's 2006 balance sheet, total liabilities related to this loan would be $10,000

c) On Boston's 2007 income statement there would be interest expense of $1,200

d) On Boston's 2006 income statement there would be interest expense of $300

Correct Answer: d

2) On October 1, 2006, Davis Co. borrowed $10,000 from Big Bank. The loan carried a 12% interest rate and a one-year term. The loan was repaid, along with the proper amount of interest, in 2007. Which of the following statements related to these events is false? (1/1)

a) Davis Co. would show a $10,000 cash outflow in the financing section of its 2007 statement of cash flows

b) Davis' assets increase $10,000 in 2006

c) Davis' assets will decrease $10,000 in 2007

d) Neither the borrowing nor repayment of this loan will have any effect on the investing section of Davis' statement of cash flows

Correct Answer: c

3) Giant Co. repaid the principal of a note payable. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		D		D		N		I		D		D
B	D		D		N		N		N		N		N
C	D		D		N		N		N		N		D
D	N		N		N		N		N		N		D

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: c

4) On December 31, 2005, the Hugo Co. accrued the interest on a note payable. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		D		D		N		I		D		D
B	D		D		N		N		N		N		D
C	N		I		D		N		I		D		N
D	N		I		D		N		N		N		N

(0/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: c

5) An adjusting journal entry to record accrued interest on a note payable would involve: (1/1)

- a) A debit to an asset account
- b) A debit to a contra asset account
- c) A credit to a liability account
- d) A credit to a revenue account

Correct Answer: c

6) Boise Co. wrote off a customer's account receivable that had a balance of $500. What effect did this have on Boise's current ratio? (0/1)

- a) The current ratio did not change
- b) The current ratio increased
- c) The current ratio decreased
- d) The answer depends on what the current ratio was prior to the write-off

Correct Answer: a

7) **The following information applies to Questions 7 and 8:**

On September 1, 2008, Madison Co. issued a discount note to the Town & Country Bank. The note had a one-year term and was discounted by the bank at 9%. The face value of the note was $5,000.

What was the carrying value of the note on December 31, 2008?
(1/1)

- a) $4,550
- b) $4,700
- c) $4,850
- d) $5,150

Correct Answer: b

8) How much interest expense was recognized by Madison in 2008 and 2009, respectively?

	2008	2009
A	$ 0.00	$150.00
B	$112.50	$337.50
C	$150.00	$300.00
D	$225.00	$225.00

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: c

9) **The following information applies to Questions 9 and 10:**

Maine Co. gives customers a three-year warranty for the products it sells. Maine's sales in 2005 were $500,000. The company estimates warranty costs will total 2% of sales over the life of the warranty. During 2005 customers' goods were repaired at a cost of $4,000. There was no balance in the warranty payable account on January 1, 2005.

How much warranty expense should Maine recognize for 2005? (1/1)

- a) $10,000
- b) $14,000
- c) $4,000
- d) $6,000

Correct Answer: a

10) What amount of warranty liability should Maine Co. report on its December 31, 2005, balance sheet? (1/1)

- a) $10,000
- b) $14,000
- c) $4,000
- d) $6,000

Correct Answer: d

11) **The following information pertains to Questions 11 and 12:**

Walker, Inc. has two employees, each are paid $20 per hour. One employee worked 40 hours this week, while the other worked 45 hours. Walker's employees receive overtime pay at the rate of 1-1/2 times regular pay for any hours worked in excess of 40 hours per week. Assume workers are subject to a Social Security rate of 6% and a Medicare tax rate of 1.5% on all the wages they have earned this week. Each worker had $150 of Federal and state income taxes withheld from their gross pay.

What is the amount of the employees' gross pay for this week? (1/1)

- a) $2,181.25
- b) $2,150.00
- c) $1,750.00
- d) $1,450.00

Correct Answer: c

12) What is the amount of the employees' net pay for this week? (1/1)

a) $1,688.75

b) $1,318.75

c) $1,450.00

d) $1,750.00

Correct Answer: b

13) Pay-More Department Stores sold $3,250,000 of goods today. These goods were subject to a state sales tax of 6%, which Pay-More collected. Determine how much cash Pay-More collected and how much revenue it should recognize as the result of today's sales.

	Cash Collected	**Revenue Recognized**
A	$3,250,000	$3,250,000
B	$3,445,000	$3,445,000
C	$3,250,000	$3,445,000
D	$3,445,000	$3,250,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

14) York Co. sells merchandise for which it provides a two-year warranty. At the end of 2006, York properly recorded the estimated warranty cost thatwill result from this year's sales. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		N		D		N		I		D		D
B	D		I		N		N		N		N		D
C	N		I		D		N		I		D		N
D	N		N		N		N		N		N		N

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: c

15) Other things being equal, if prices are rising, a company will have a higher current ratio if it uses: (1/1)

a) FIFO

b) LIFO

c) Weighted average

d) The inventory cost flow method used has no effect on the current ratio

Correct Answer: a

1) On January 1, 2007, Sinola Co. issued bonds with a face value of $50,000 at 97. What journal entry would Sinola make on the date the bonds were issued?

A	Cash	50,000	
	Bonds Payable		50,000
B	Cash	48,500	
	Bonds Payable		48,500
C	Cash	50,000	
	Bonds Payable		48,500
	Discount on Bonds Payable		1,500
D	Cash	48,500	
	Discount on Bonds Payable	1,500	
	Bonds Payable		50,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

2) A bond will sell at a premium if: (1/1)

a) The market rate of interest is equal to the bond's stated rate

b) The market rate of interest is greater than the bond's stated rate

c) The market rate of interest is less than the bond's stated rate

d) The bond is convertible into common stock

Correct Answer: c

3) **The following information applies to Questions 3 – 6:**

On January 1, 2007, Talbot Co. issued bonds with a $100,000 face value and a stated interest rate of 8%. The bonds have a 10-year term to maturity and pay interest on December 31 of each year. The bonds were issued at 98.

How much discount should be amortized on December 31, 2007?
(1/1)

a) $98

b) $200

c) $250

d) $2,000

Correct Answer: b

4) What would be the carrying value of the bonds on the December 31, 2007, balance sheet? (1/1)

a) $100,000

b) $98,000

c) $98,200

d) $97,800

Correct Answer: c

What amount of interest expense should be reported on the

5) 2007 income statement? (1/1)

- a) $7,800
- b) $7,840
- c) $8,000
- d) $8,200

Correct Answer: d

6) What amount of cash flow from operating activities should be shown on the 2007 statement of cash flows? (1/1)

- a) $7,800
- b) $7,840
- c) $8,000
- d) $8,200

Correct Answer: c

7) **The following information applies to Questions 7 – 9:**

On January 1, 2008, Gyro Co. issued bonds with $100,000 face value and a stated interest rate of 8%. The bonds have a 10-year term to maturity and pay interest on December 31 of each year. The bonds were issued at 102.

How much cash was received from issuance of the bonds? (1/1)

- a) $108,000
- b) $102,000
- c) $100,000
- d) $98,000

Correct Answer: b

8) What would be the carrying value of the bonds on the December 31, 2008, balance sheet? (1/1)

- a) $102,200
- b) $102,000
- c) $101,800

d) $100,000

Correct Answer: c

9) What amount of interest expense should be reported on the 2008 income statement? (1/1)

a) $8,200

b) $8,160

c) $8,000

d) $7,800

Correct Answer: d

10) Which of the following statements is true? (1/1)

a) A debenture is a type of bond for which assets have been pledged as collateral

b) Callable bonds may be converted into common stock of the corporation issuing the bonds

c) Term bonds are bonds for which the principal is to be repaid in a series of payments, rather than a single payment

d) Unregistered bonds are the same as bearer bonds

Correct Answer: d

11) On January 1, 2005, Lewis Co. issued bonds with a face value of $1,000,000 and a stated interest rate of 8%. The bonds mature in 20 years and pay interest on January 1 of each year, beginning in 2006. The bonds were issued at 100. What would be the total liabilities related to these bonds on Lewis' December 31, 2005, balance sheet? (1/1)

a) $1,080,000

b) $1,000,000

c) $920,000

d) $80,000

Correct Answer: a

12) On January 1, 2005, Quail Co. borrowed $20,000 from the City Bank by issuing a 10%, 4-year, term note. To repay the note and related interest, Quail agreed to make equal annual payments of $6,309.42. What amount of interest expense would Quail recognize on this loan during 2006 (the second

year of the loan)? (1/1)

a) $2,000.00

b) $1,569.06

c) $1,309.42

d) $630.94

Correct Answer: b

13) Parker Co. has a line of credit with the Merchant's Bank. The agreement with the bank calls for Parker to pay interest on the outstanding balance of the debt at a rate equal to the 3-month Treasury Bill rate plus 4%. Any money borrowed or repaid by Parker must occur on the first day of a month. Data related to Parker's line of credit during the first three months of 2008 are shown below:

Date	Amount Borrowed Or (Repaid)	Treasury Bill Rate
Jan 1	$40,000	5%
Feb 1	10,000	5%
Mar 1	(20,000)	6%

Based on this data, what amount of interest expense should Parker recognize for the first three months of 2008?
(1/1)

a) $750

b) $925

c) $1,125

d) $1,800

Correct Answer: b

14) Moncton Co. borrowed $100,000 from the Local Bank by issuing a one-year note with a 10% interest rate. The income tax rate for Moncton Co. averages 30%. What is the after-tax interest cost of this loan? (0/1)

a) $3,000

b) $7,000

c) $10,000

d) $13,000

Correct Answer: b

15) Halifax Co. issued bonds on January 1, 2005, at a discount. On December 31, 2005, Halifax amortized part of the discount on these bonds. Which of the following choices reflects how the **amortization of the discount only** would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	N		I		D		N		I		D		N
B	N		D		D		N		I		D		N
C	D		N		D		N		I		D		N
D	D		D		N		N		N		N		D

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: a

1) On January 1, 2007, Sinola Co. issued bonds with a face value of $50,000 at 97. What journal entry would Sinola make on the date the bonds were issued?

A	Cash	50,000	
	Bonds Payable		50,000
B	Cash	48,500	
	Bonds Payable		48,500
C	Cash	50,000	
	Bonds Payable		48,500
	Discount on Bonds Payable		1,500
D	Cash	48,500	
	Discount on Bonds Payable	1,500	
	Bonds Payable		50,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

2) A bond will sell at a premium if: (1/1)

- a) The market rate of interest is equal to the bond's stated rate
- b) The market rate of interest is greater than the bond's stated rate
- c) The market rate of interest is less than the bond's stated rate
- d) The bond is convertible into common stock

Correct Answer: c

3) **The following information applies to Questions 3 – 6:**

On January 1, 2007, Talbot Co. issued bonds with a $100,000 face value and a stated interest rate of 8%. The bonds have a 10-year term to maturity and pay interest on December 31 of each year. The bonds were issued at 98.

How much discount should be amortized on December 31, 2007?
(1/1)

- a) $98
- b) $200
- c) $250
- d) $2,000

Correct Answer: b

4) What would be the carrying value of the bonds on the December 31, 2007, balance sheet? (1/1)

- a) $100,000
- b) $98,000
- c) $98,200
- d) $97,800

Correct Answer: c

5) What amount of interest expense should be reported on the 2007 income statement? (1/1)

- a) $7,800
- b) $7,840
- c) $8,000
- d) $8,200

Correct Answer: d

6) What amount of cash flow from operating activities should be shown on the 2007 statement of cash flows? (1/1)

- a) $7,800
- b) $7,840
- c) $8,000
- d) $8,200

Correct Answer: c

7) **The following information applies to Questions 7 – 9:**

On January 1, 2008, Gyro Co. issued bonds with $100,000 face value and a stated interest rate of 8%. The bonds have a 10-year term to maturity and pay interest on December 31 of each year. The bonds were issued at 102.

How much cash was received from issuance of the bonds? (1/1)

- a) $108,000
- b) $102,000
- c) $100,000
- d) $98,000

Correct Answer: b

8) What would be the carrying value of the bonds on the December 31, 2008, balance sheet? (1/1)

- a) $102,200

b) $102,000

c) $101,800

d) $100,000

Correct Answer: c

9) What amount of interest expense should be reported on the 2008 income statement? (1/1)

a) $8,200

b) $8,160

c) $8,000

d) $7,800

Correct Answer: d

10) Which of the following statements is true? (1/1)

a) A debenture is a type of bond for which assets have been pledged as collateral

b) Callable bonds may be converted into common stock of the corporation issuing the bonds

c) Term bonds are bonds for which the principal is to be repaid in a series of payments, rather than a single payment

d) Unregistered bonds are the same as bearer bonds

Correct Answer: d

11) On January 1, 2005, Lewis Co. issued bonds with a face value of $1,000,000 and a stated interest rate of 8%. The bonds mature in 20 years and pay interest on January 1 of each year, beginning in 2006. The bonds were issued at 100. What would be the total liabilities related to these bonds on Lewis' December 31, 2005, balance sheet? (1/1)

a) $1,080,000

b) $1,000,000

c) $920,000

d) $80,000

Correct Answer: a

12) On January 1, 2005, Quail Co. borrowed $20,000 from the City Bank by issuing a 10%, 4-year, term note. To repay the note and related interest, Quail agreed to make equal annual payments of $6,309.42. What amount of interest expense would Quail recognize on this loan during 2006 (the second year of the loan)? (1/1)

- a) $2,000.00
- b) $1,569.06
- c) $1,309.42
- d) $630.94

Correct Answer: b

13) Parker Co. has a line of credit with the Merchant's Bank. The agreement with the bank calls for Parker to pay interest on the outstanding balance of the debt at a rate equal to the 3-month Treasury Bill rate plus 4%. Any money borrowed or repaid by Parker must occur on the first day of a month. Data related to Parker's line of credit during the first three months of 2008 are shown below:

Date	Amount Borrowed Or (Repaid)	Treasury Bill Rate
Jan 1	$40,000	5%
Feb 1	10,000	5%
Mar 1	(20,000)	6%

Based on this data, what amount of interest expense should Parker recognize for the first three months of 2008? (1/1)

- a) $750
- b) $925
- c) $1,125
- d) $1,800

Correct Answer: b

14) Moncton Co. borrowed $100,000 from the Local Bank by issuing a one-year note with a 10% interest rate. The income tax rate for Moncton Co. averages 30%. What is the after-tax interest cost of this loan? (0/1)

- a) $3,000

b) $7,000

c) $10,000

d) $13,000

Correct Answer: b

15) Halifax Co. issued bonds on January 1, 2005, at a discount. On December 31, 2005, Halifax amortized part of the discount on these bonds. Which of the following choices reflects how the **amortization of the discount only** would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	N		I		D		N		I		D		N
B	N		D		D		N		I		D		N
C	D		N		D		N		I		D		N
D	D		D		N		N		N		N		D

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: a

1) Which of the following is not an advantage of the corporate form of business organization? (1/1)

a) Amount of regulation

b) Continuity of life

c) Limited liability

d) Transfer of ownership

Correct Answer: a

2) As of December 31, 2009, Butte Co. has the following outstanding stock:

Common Stock: 200,000 shares of $10 par value
Preferred Stock: 10,000 shares of 5%, $100 par value, cumulative

Butte Co. did not pay any dividends in 2007 or 2008. In December of 2009 Butte declared $300,000 of cash dividends. How much dividend will be paid on each share of preferred stock?
(1/1)

- a) $5
- b) $10
- c) $15
- d) $30

Correct Answer: c

3) Peoria Co. had 10,000 shares of common stock outstanding. The stock, which had a par value of $2, was originally issued for $5 per share. At a time when the stock had a market value of $15 per share, Peoria issued a 10% stock dividend. Which of the following statements regarding this stock dividend is true?
(1/1)

- a) Issuing the stock dividend caused total assets to decrease
- b) Issuing the stock dividend caused the par value of the stock to decrease
- c) Issuing the stock dividend caused net income to decrease
- d) Issuing the stock dividend caused retained earnings to decrease

Correct Answer: d

4) Decatur Co. issued 5,000 shares of common stock for $8 per share. The stock has a par value of $5 per share. How should this event be recorded?

A	Cash	40,000	
	Common Stock		40,000
B	Cash	40,000	
	Common Stock		25,000
	Paid-In Capital in Excess of Par		15,000
C	Cash	40,000	
	Common Stock		15,000
	Paid-In Capital in Excess of Par		25,000

D	Cash	40,000	
	Common Stock		25,000
	Retained Earnings		15,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: b

5) **The following information applies to Questions 5 – 7:**

The following information was available for Hilltop Co. as of July 1, 2006:

Total Assets	**$1,000,000**
Total Liabilities	**400,000**
Common Stock ($10 par value, 5,000 shares out)	**50,000**
Paid-In Capital in Excess of Par Value	**200,000**
Retained Earnings	**350,000**

On July 15, 2006, Hilltop purchased 100 shares of treasury stock for $70 per share. What will be the amount of total stockholders' equity after this transaction?
(1/1)

a) $600,000

b) $593,000

c) $250,000

d) $243,000

Correct Answer: b

6) On September 20, 2006, Hilltop sold 50 shares of the treasury stock for $75 per share. (This is the same stock that had been purchased for $70 per share on July 15.) Which of the following statements is true regarding the sale of this treasury stock? (1/1)

a) Assets were increased by $250

b) Equity was increased by $3,750

c) Equity was increased by $250

d) The sale had no effect on total assets or total equity

Correct Answer: b

7) On November 1, 2006, Hilltop sold the remaining 50 shares of the treasury stock for $60 per share. (This is the same stock that had been purchased for $70 per share on July 15.) Which of the following statements is true regarding this sale of treasury stock? (1/1)

a) Assets increased by $3,000

b) Assets decreased by $500

c) Equity increased by $500

d) Equity decreased by $3,000

Correct Answer: a

8) At a time when Yazoo Co. had 50,000 shares of $20 par value common stock outstanding, it issued a 10% stock dividend. Immediately prior to the issuance of the dividend, Yazoo's stock was selling for $30 per share. Which of the following journal entries correctly records the issuance of this stock dividend?

A	Cash	150,000	
	Common Stock		100,000
	Paid-In Capital in Excess of Par		50,000
B	Common Stock	100,000	
	Paid-In Capital in Excess of Par	50,000	
	Dividend Payable		150,000
C	Dividend Payable	150,000	
	Common Stock		100,000
	Paid-In Capital in Excess of Par		50,000
D	Retained Earnings	150,000	
	Common Stock		100,000
	Paid-In Capital in Excess of Par		50,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

9) Chicago Co. had 100,000 shares of $10 par value common stock outstanding. If Chicago issued a 2-for-1 stock split, which of the following statements is false? (1/1)

a) The stock split will reduce the par value of common stock to $5 per share

b) After the split, 200,000 shares of common stock will be outstanding

c) The split will double the total market value of each stockholder's stock

d) The stock split will have no effect on Chicago's current ratio

Correct Answer: c

10) At December 31, 2007, Maion Co. had the following stock outstanding:

10,000 shares of 8%, $50 par value preferred stock;
90,000 shares of $5 par value common stock.

If the board of directors declares cash dividends of $150,000, what amount of dividends would each class of stockholders receive?

	Preferred Stockholders	Common Stockholders
A	$15,000	$135,000
B	$75,000	$ 75,000
C	$40,000	$110,000
D	$80,000	$ 70,000

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: c

11) The following information is available for Greensburg Co. as of December 31, 2008:

Cash	$ 10,000		Common Stock ($10 par)	$20,000
Total Assets	100,000		Paid-In Capital in Excess of Par	26,000
Total Liabilities	30,000		Retained Earnings	54,000

What was the sales price per share of the original stock issue?

(1/1)

- a) $10
- b) $23
- c) $35
- d) $50

Correct Answer: b

12) Port Co. declared and paid a cash dividend. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		N		D		N		N		N		D
B	N		D		D		N		N		N		N
C	D		N		D		N		I		D		D
D	N		N		N		N		N		N		D

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: a

13) Waterloo Co. issued a stock dividend. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		N		D		N		N		N		D
B	N		I		D		N		N		N		N
C	N		I		D		N		I		D		N
D	N		N		N		N		N		N		N

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: d

14) Tulsa Co. repurchased 200 shares of its own stock for $25 per share. The stock was issued originally at $20 per share. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash
A	D		N		D		N		N		N		D
B	N		N		N		N		N		N		N
C	D		N		D		N		I		D		D
D	I		N		I		N		N		N		I

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: a

15) Topeka Co. had net income of $1,000,000 in 2008. Throughout the year Topeka had 200,000 shares of $10 par value common stock outstanding. At December 31, 2008, Topeka's stock was selling in the market at $60 per share. What was the P/E ratio of Topeka's stock?

NOTE: This question has been modified on 10-9-07 and may not match your paper copy.
(0/1)

- a) 12
- b) 6
- c) 5
- d) 2

Correct Answer: a

1) Derek Co. reported sales of $50,000 in 2007. Derek's balance sheets for 2006 and 2007 showed the following:

	2006	2007
Accounts Receivable	$10,000	$12,000
Accounts Payable	7,000	10,000

Based on this information, how much cash did Derek collect from sales during 2007?

(1/1)

- a) $53,000
- b) $52,000
- c) $48,000
- d) $47,000

Correct Answer: c

2) Gordon Co. reported utilities expense of $15,000 in 2007. Utilities Payable was $4,000 on January 1, 2007, and $3,000 on December 31, 2007. How much cash did Gordon pay for utilities during 2007? (1/1)

- a) $15,000
- b) $16,000
- c) $17,000
- d) $19,000

Correct Answer: b

3) In what sections of the statement of cash flows should companies report cash dividends paid and cash dividends received?

	Dividends Paid	Dividends Received
A	Financing	Operating
B	Financing	Investing
C	Operating	Financing
D	Operating	Operating

(1/1)

- a) A above
- b) B above
- c) C above

d) D above

Correct Answer: a

4) In what sections of the statement of cash flows should companies report cash borrowed with a note payable and interest paid on the note payable?

	Cash Borrowed With Note Payable	Interest Paid On Note Payable
A	Financing	Financing
B	Investing	Operating
C	Financing	Operating
D	Operating	Financing

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: c

5) Which of the following would be a cash inflow from investing activities? (1/1)

a) Borrowed cash by issuing bonds payable

b) Sold inventory for cash

c) Exchanged land for common stock of another company

d) Sold used equipment at a loss

Correct Answer: d

6) Jensen Co. reported $20,000 of rent expense on its 2006 income statement. The balance in Prepaid Rent was $6,000 on December 31, 2005, and $4,000 on December 31, 2006. How much cash did Jensen Co. pay for rent during 2006? (1/1)

a) $16,000

b) $18,000

c) $22,000

d) $26,000

Correct Answer: b

7) For 2007 Lane Co. reported net income of $750,000 and net cash flows from operating activities of $1,000,000. Which of the following could not have been a reason that Lane's net cash flows from operating activities were greater than its net income? (1/1)

a) Depreciation expense

b) Loss on sale of equipment

c) Decrease in inventory from the beginning of the year to the end of the year

d) Decrease in wages payable from the beginning of the year to the end of the year

Correct Answer: d

8) Consider the following events that occurred at Lewis Co. during 2008:

Jan. 1	Issued bonds for $100,000
Jan. 20	Used cash from the sale of bonds to purchase equipment for $80,000
Oct. 1	Sold used equipment for $15,000. This equipment had been acquired in 2005, and was sold at a $5,000 loss
Dec. 1	Paid interest of $8,000 on the bonds

Based only on the facts above, what would be Lewis' net cash flow from investing activities for 2008?
(1/1)

a) $95,000 decrease

b) $65,000 decrease

c) $10,000 increase

d) $5,000 increase

Correct Answer: b

9) On July 1, 2006, Neptune Co. sold a building for $100,000. The building had cost Neptune $300,000 fifteen years earlier, and had accumulated depreciation of $230,000 at the time of sale. What were the effects of this event on Neptune's net income and cash flows?

	Net Income	Cash Flows

A	$200,000 decrease	$130,000 increase
B	$ 30,000 increase	$ 70,000 increase
C	$ 30,000 increase	$100,000 increase
D	$ 70,000 increase	$100,000 increase

(1/1)

- a) A above
- b) B above
- c) C above
- d) D above

Correct Answer: c

10) The following account balances are available for Perez Co.:

	December 31, 2006	December 31, 2007
Equipment	$500,000	$600,000
Accumulated Depreciation	200,000	240,000

During 2007 Perez Co. sold equipment for $65,000 that had originally cost $80,000. At the time of the sale this equipment had accumulated depreciation of $30,000. How much equipment did Perez **purchase** during 2007?

(1/1)

- a) $110,000
- b) $140,000
- c) $150,000
- d) $180,000

Correct Answer: d

11) In 2007 the Shark Co. had net income of $50,000. Depreciation expense for 2007 was $8,000. Listed below are net changes in selected account balances at Shark, for 2007:

	Net Increase (Or Decrease)
Cash	$(10,000)
Accounts Receivable	13,000
Inventory	(12,000)
Long-term Assets (net)	15,000
Accounts Payable	(11,000)
Wages Payable	14,000

Long-term Liabilities	12,000

How much was Shark's net cash flow from operating activities for 2007?
(1/1)

- a) $60,000
- b) $63,000
- c) $70,000
- d) $73,000

Correct Answer: a

1) Which of the following statements about financial statement analysis is true? (1/1)

- a) The book value per share is a profitability ratio
- b) The debt-to-equity ratio is a solvency ratio
- c) The return-on-equity is a liquidity ratio
- d) The quick ratio is a stock market ratio

Correct Answer: b

2) Which of the following statements about ratio analysis is false? (1/1)

- a) A company prefers to have its price-earnings ratio be lower rather than higher
- b) A company prefers to have its inventory turnover ratio be higher rather than lower
- c) A company trying to increase its creditworthiness prefers to have its debt-to-equity ratio be lower rather than higher
- d) A company prefers to have its net margin be higher rather than lower

Correct Answer: a

3) Which of the following statements about financial statement analysis is true? (1/1)

- a) Working capital is defined as: current assets – (inventory + prepaid assets)

b) Vertical analysis refers to comparing different companies in the same industry

c) In order to conduct a horizontal analysis, a company's financial data must be converted from an absolute format to a percentage format

d) In order to perform trend analysis, financial data from more than one accounting period must be obtained

Correct Answer: d

4) **The following information pertains to Questions 4 – 7:**

Neutron Company
Balance Sheet as of December 31, 2006

Current assets:			**Current liabilities:**	
Cash	**$ 10,000**		**Accounts payable**	**$150,000**
Accounts receivable	**90,000**		**Taxes payable**	**20,000**
Inventory	**135,000**		**Interest payable**	**10,000**
Prepaid insurance	**15,000**			**180,000**
	250,000		**Long-term liabilities:**	
Long-term assets:			**Notes payable**	**50,000**
Equipment	**150,000**		**Bonds payable**	**250,000**
Buildings	**250,000**			**300,000**
Land	**50,000**		**Total liabilities**	**480,000**
Goodwill	**50,000**			
	500,000		**Stockholders' equity:**	
Total assets	**$750,000**		**Common stock**	**100,000**
			Retained earnings	**170,000**
			Total stockholders' equity	**270,000**
			Total liabilities & stockholders' equity	**$750,000**

What is the amount of Neutron's working capital?
(1/1)

a) $270,000

b) $250,000

c) $100,000

d) $70,000

Correct Answer: d

5) What is Neutron’s debt-to-equity ratio? (1/1)

a) 1.39 to 1.0

b) 1.78 to 1.0

c) .64 to 1.0

d) .72 to 1.0

Correct Answer: b

6) What is Neutron’s current ratio? (1/1)

a) 1.39 to 1.0

b) 1.80 to 1.0

c) .56 to 1.0

d) .72 to 1.0

Correct Answer: a

7) What is Neutron’s quick ratio? (1/1)

a) 1.39 to 1.0

b) 1.80 to 1.0

c) .56 to 1.0

d) .72 to 1.0

Correct Answer: c

8) **The following information pertains to Questions 8 – 13:**

Information from the Balance Sheet of Green Garden Company

	2007	2006
Cash	$ 10,000	$ 11,000
Accounts receivable	98,000	92,000
Inventory	155,000	164,000
Property plant & equipment	737,000	667,000
Total assets	$1,000,000	$934,000
Accounts payable	$ 96,500	$ 98,500
Interest payable	3,500	3,500
Bonds payable	600,000	600,000
Total liabilities	700,000	702,000
Common stock (10,000 shares outstanding)	100,000	100,000
Retained earnings	200,000	132,000
Total stockholders' equity	300,000	232,000
Total liabilities & stockholders' equity	$1,000,000	$934,000

Information from the Income Statement of Green Garden Company	
Sales	$ 850,000
Cost of goods sold	(537,500)
Selling and administrative expenses	(157,000)
Interest expense	(42,000)
Income tax expense	(45,000)
Net income	$ 68,000

What are Green Garden's *average days to collect receivables*? (1/1)

- a) 41 days
- b) 65 days
- c) 68 days
- d) 108 days

Correct Answer: a

9) What are Green Garden's average days to sell inventory? (1/1)

- a) 41 days
- b) 65 days

c) 68 days

d) 108 days

Correct Answer: d

10) What is the number of times interest is earned for Green Garden? (1/1)

a) 1.62 times

b) 2.62 times

c) 3.69 times

d) 20.24 times

Correct Answer: c

11) What is Green Garden's net margin percentage? (1/1)

a) 36.8%

b) 18.2%

c) 8.0%

d) 6.8%

Correct Answer: c

12) What is Green Garden's book value per share for 2007? (1/1)

a) $10

b) $30

c) $70

d) $100

Correct Answer: b

13) What is Green Garden's return on investment? (1/1)

a) 7.0%

b) 8.0%

c) 22.7%

d) 85.0%

Correct Answer: a

14) **The following information pertains to Questions 14 and 15:**

The following information is available for the Fonseca Company for 2009:

Net earnings	**$214,000**
Average number of shares of Common Stock Outstanding (No Par Value)	**100,000**
Average number of shares of Preferred Stock Outstanding (Par = $100, 7% Dividend rate)	**2,000**
Market price per share of Common Stock	**$ 37.00**
Market price per share of Preferred Stock	**$105.00**
Dividend per share paid on Common Stock	**$ 0.75**

What is Fonseca's *earnings per share*?
(0/1)

a) $1.25

b) $2.00

c) $2.07

d) $2.10

Correct Answer: b

15) What is Fonseca's dividend yield on Common Stock? (1/1)

a) 37.5%

b) 2.0%

c) 7.0%

d) 35.0%

Correct Answer: b

1) Which of the following is a characteristic of managerial accounting? (1/1)

a) Users of data are insiders such as managers and employees

b) Includes physical information about subunits of an organization

c) Is regulated only by the cost/benefit rule

d) All of the above are characteristics of managerial accounting

Correct Answer: d

2) Phil Carter is a stockbroker. In this capacity, Phil is interested in which of the following kinds of information? (1/1)

a) Information that pertains to the operations of a business such as time cards adn work schedules

b) Information that is global and pertains to the business as a whole

c) Information that pertains to the subunits of a business organization

d) Both (a) and (c)

Correct Answer: b

3) Which of the following is not a product cost? (1/1)

a) The cost of ordering production supplies

b) The cost of rent on the manufacturing facility

c) The cost of commissions paid to sales staff

d) (a) and (c)

Correct Answer: c

4) Which of the following statements concerning product versus general, selling, and administrative (GS&A) costs is true? (1/1)

a) Product costs are usually spread between the balance sheet and the income statement

b) GS&A costs never appear on the balance sheet

c) Product costs appear only on the income statement

d) GS&A costs are accumulated in an inventory account before appearing on the income statement

Correct Answer: a

5) **The following information applies to Questions 5 and 6:**

Newman Industries (NI) makes baby diapers. During the most recent accounting period, NI paid $90,000 for raw materials, $78,000 for labor, and $82,000 for overhead costs that were incurred to start and complete 125,000 boxes of diapers. GS&A expenses amounted to $120,000.

Assuming NI desires to earn a gross profit that is equal to 60% of product cost, the selling price per box of diapers should be: (1/1)

a) $2.00

b) $2.60

c) $3.00

d) $3.20

Correct Answer: d

6) If NI sells 110,000 boxes of diapers, the amount of net income will be: (1/1)

a) $12,000

b) $13,200

c) $22,000

d) None of the above

Correct Answer: a

7) Which of the following statements is true? (1/1)

a) A cost can be recognized as an expense immediately or accumulated in an asset account

b) A cost and an expense are different terms used to describe the same thing

c) An expense can be recognized immediately or accumulated in an asset account

d) Costs incurred for wages of production workers are expensed before they are accumulated in an inventory account

Correct Answer: a

8) **The following information applies to Questions 8 and 9:**

During 2001, Gary Manufacturing Company (GMC) incurred $280,000 of manufacturing costs and $84,000 of GS&A expenses. GMC made 14,000 units of product and sold 12,000 units.

Based on the above information, the balance in the inventory account shown on GMC's 12/31/01 balance sheet is: (1/1)

a) $220,000

b) $40,000

c) $280,000

d) $24,000

Correct Answer: b

9) Based on the above information, the amount of expense shown on GMC's 12/31/01 income statement is: (1/1)

a) $240,000

b) $84,000

c) $324,000

d) None of the above

Correct Answer: c

10) Beverly Industries paid cash for the rental of manufacturing equipment. Select the answer that shows the effect that this event would have on the financial statements.

	Assets	=	Liab.	+	Equity		Rev	-	Exp.	=	Net Inc.		Cash Flow
A	-		n/a		-		n/a		-		-		n/a
B	- +		n/a		n/a		n/a		n/a		n/a		- OA
C	-		n/a		-		n/a		n/a		n/a		- OA

D	+ -		n/a		n/a		n/a		n/a		n/a		n/a

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: b

11) **The following information applies to Questions 11 – 13:**

The accounting records of the Aero Manufacturing Company (AMC) contained the following information:

Raw Materials Used	**$40,000**		**Sales Revenue**	**$192,000**
Sales Salaries	**12,000**		**Indirect Mfg. Costs**	**68,000**
Depr. on Admin. Equip.	**8,000**		**Depr. on Prod. Equip.**	**14,000**
Wages Paid to Prod. Workers	**60,000**		**Misc. GS&A Expenses**	**18,000**

AMC made 5,000 units of product and sold 4,000 units during the accounting period. There was no beginning inventory.

AMC's average product cost per unit is:
(1/1)

a) $33.60

b) $16.40

c) $20.00

d) $36.40

Correct Answer: d

12) The balance in AMC's inventory account as of December 31 is:
(1/1)

a) $36,400

b) $145,600

c) $33,600

d) $182,000

Correct Answer: a

13) The amount of net income appearing on AMC's December 31 income statement is: (1/1)

a) $26,400

b) $34,400

c) $8,400

d) $46,400

Correct Answer: c

14) The president of Beatty Manufacturing Company is paid an incentive bonus that is equal to 5% of net income. During the current accounting period, Beatty expects to make 10,000 units of product and to sell 9,000 units. Beatty recently incurred a $1,000,000 manufacturing design cost. There is a debate regarding whether this cost should be classified as a product cost or as an upstream cost. Beatty is in a 30% tax bracket. Based on this information, select the true answer from the following choices: (1/1)

a) The company president will be motivated to classify the cost as a product cost because her bonus will be $50,000 higher than it will be if the cost is classified as an upstream cost

b) Beatty's income tax expense will be $70,000 more if the design cost is classified as a product cost than it will be if it is classified as an upstream cost

c) Beatty's financial statements will portray a more favorable financial position if the design cost is classified as an upstream cost rather than a product cost

d) None of the statements is true

Correct Answer: d

15) The accountant for Sandy Manufacturing mistakenly classified a selling expense as a product cost during an accounting period in which the company sold more inventory than it produced. Sandy used a LIFO cost flow system. As a result of this error: (0/1)

a) Assets and net income will be overstated

b) Assets will be overstated and net income will be understated

c) Assets and net income will be understated

d) Assets and net income will be unaffected

Correct Answer: d

1) When volume increases: (1/1)

a) Fixed cost in total increases and fixed cost per unit decreases

b) Fixed cost in total remains constant and fixed cost per unit decreases

c) Fixed cost in total and fixed cost per unit remain constant

d) None of the above

Correct Answer: b

2) When volume increases: (1/1)

a) Variable cost in total increases and variable cost per unit decreases

b) Variable cost in total remains constant and variable cost per unit decreases

c) Variable cost in total and variable cost per unit increase

d) None of the above

Correct Answer: d

3) At a point when volume reached 4,000 units, fixed costs amounted to $20,000 and total cost amounted to $60,000. If volume were to increase to a level of 5,000 units, total cost would be: (1/1)

a) $70,000

b) $60,000

c) $100,000

d) None of the above

Correct Answer: a

4) The following income statement was produced when the volume of sales was 200 units.

Sales Revenue	$1,000
Variable Cost	(600)
Contribution Margin	$ 400
Fixed Cost	(150)
Net Income	$ 250

If volume reaches 250 units, net income will be:
(1/1)

- a) $350
- b) $500
- c) $550
- d) None of the above

Correct Answer: a

5) Complete the following table assuming the cost is a **fixed** cost:

Units of Product Sold	15	20	25
Total Expected Cost	$ 7,500		"X"
Average **Per Unit**	$ 500		"Y"

The amounts in the cells labeled "X" and "Y" is, respectively:
(1/1)

- a) $12,500 and $500
- b) $7,500 and $500
- c) $12,500 and $625
- d) $7,500 and $300

Correct Answer: d

6) Complete the following table assuming the cost is a **variable** cost:

Units of Product Sold	15	20	25
Total Expected Cost	$ 7,500		"X"
Average **Per Unit**	$ 500		"Y"

The amounts in the cells labeled "X" and "Y" is, respectively:
(1/1)

- a) $7,500 and $500
- b) $12,500 and $625
- c) $12,500 and $500
- d) $7,500 and $300

Correct Answer: c

7) **The following information pertains to Questions 7 – 10:**

Gary's Bait and Tackle Company operates a chain of convenience stores that are located on lakes throughout the United States. The company pays rent of $12,000 a year for each store. Inventory is purchased as needed. The managers of each shop are paid a salary of $1,200 a month and all other employees are paid on an hourly basis.

Relative to the number of volume of sales, the cost of rent at each store is what kind of cost?
(1/1)

- a) Variable cost
- b) Mixed cost
- c) Historical cost
- d) Fixed cost

Correct Answer: d

8) Relative to the number of stores, the cost of rent is which kind of cost? (1/1)

- a) Fixed cost
- b) Variable cost
- c) Mixed cost
- d) Accumulated cost

Correct Answer: b

9) The costs of inventory relative to the volume of sales in a particular shop and relative to the volume of sales in the entire chain of stores are which kind of cost, respectively? (1/1)

- a) Variable cost / fixed cost

b) Fixed cost / fixed cost

c) Variable cost / variable cost

d) Fixed cost / variable cost

Correct Answer: c

10) Relative to the number of hours worked, total employee compensation cost for a particular store and for a chain of store is which kind of cost, respectively? (1/1)

a) Variable cost / variable cost

b) Fixed cost / fixed cost

c) Mixed cost / mixed cost

d) Fixed cost / variable cost

Correct Answer: c

11) Within the relevant range, the total cost remains constant when volume increases. However, when volume exceeds the relevant range, the total cost increases. The type of cost behavior is called: (1/1)

a) Variable cost behavior

b) Mixed cost behavior

c) Fixed cost behavior

d) Allocated cost behavior

Correct Answer: c

12) Operating leverage is possible when the organizational cost structure is: (1/1)

a) Purely fixed

b) Purely variable

c) Mixed

d) (a) or (c)

Correct Answer: d

13) Zeta Company sells men's sports coats. The average sales price is $475, and the average cost per coat is $225. Fixed costs are $4,220,000. If Zeta sells 25,000 coats, the contribution margin will be: (1/1)

a) $7,655,000

b) $5,625,000

c) $2,030,000

d) $6,250,000

Correct Answer: d

14) Rita Company sells water containers. The price and cost of the containers is $75 and $40, respectively. Fixed costs are $210,000. Rita sells approximately 8,000 containers per year. Based on this information, the magnitude of operating leverage is: (1/1)

a) 3 times

b) 4 times

c) 5 times

d) 6 times

Correct Answer: b

15) Blanchett Stapler Company sells staplers at a price of $7 each. The staplers cost $4 each. Blanchett sold 10,000 staplers during its most recent accounting period. Fixed costs amounted to $20,000. If the number of units sold increases by 10%, profitability will increase by which of the following amounts:

NOTE: This question has been modified on 9-20-07 and may not match your paper copy.
(1/1)

a) 10%

b) 20%

c) 30%

d) 40%

Correct Answer: c

1) Taylor Department Stores is attempting to determine the cost of operating a particular store. Which of the following costs would be classified as an indirect cost? (1/1)

a) Cost of goods sold

b) Salary of store manager

c) Cost of operating Taylor's company airplane

d) Supplies used by employees working in the men's department

Correct Answer: c

2) Depending on the circumstances, the cost of employee compensation could be classified as: (1/1)

a) Product cost

b) Indirect cost

c) Relevant cost

d) All of the above

Correct Answer: d

3) Allocation is used to assign costs to: (1/1)

a) Cost objects

b) Cost drivers

c) Cost pools

d) All of the above

Correct Answer: a

4) What is the formula for determining the allocation rate? (1/1)

a) (total cost to be allocated) / (cost driver)

b) (cost driver) / (total cost to be allocated)

c) (allocation rate) / (cost driver)

d) (cost driver - allocation rate) / (total cost to be allocated)

Correct Answer: a

5) Select the most appropriate allocation base and determine the amount of this month's $3,600 office rental payment to Department C.

Department	Number of Employees	Square Feet
A	24	6,000
B	16	3,000

C	10	9,000

(1/1)

a) $1,200

b) $1,800

c) $3,600

d) $1,000

Correct Answer: b

6) The Atlantic Company expects to incur $4,000 per month of fixed overhead costs during the first three months of the year, and $10 per unit of variable overhead costs. Expected production for January, February, and March is 4,000, 5,000 and 3,000, respectively. Based on this information, the pre-determined overhead rate for the first three months of the year is: (1/1)

a) $0.80 per unit

b) $11.00 per unit

c) $10.00 per unit

d) $0.33 per unit

Correct Answer: b

7) A factor having a "cause and effect" relationship with a cost object is called a: (1/1)

a) Joint product

b) Relevant cost

c) Cost driver

d) Indirect cost

Correct Answer: c

8) Production workers at Elliot Manufacturing Company provided 1,400 hours of labor in January and 1,100 hours in February. Elliot expects to use 15,600 hours of labor during the year and expects to pay an annual insurance premium of $39,000 sometime in March. How much of the insurance cost should be allocated to products made in January and to those made in February?

	January	February
A	$2,000	$5,500
B	$3,500	$1,250
C	$4,000	$1,750
D	$3,500	$2,750

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: d

9) Hanson Company expects to incur $133,000 of fringe benefits cost during the next accounting period. The company produces two products, one known as Compound A and the other as Compound B. Making a unit of Compound A requires 5 hours of labor. Making a unit of Compound B requires 9 hours of labor. The company expects to make 500 units of one product and 900 units of the other product. Each unit of both products is expected to require $70 of raw materials cost. Total direct labor hours are expected to be 26,600. Which of the following statements is true? (1/1)

a) Number of units of product would be the most appropriate allocation base for the fringe benefits cost

b) The predetermined overhead rate for the fringe benefits cost should be $95 per unit

c) The predetermined overhead rate for the fringe benefits cost should be $5 per direct labor hour

d) (a) and (b)

Correct Answer: c

10) Based on the following history of production information, which allocation base would you choose to use for your company (i.e., what is the cost driver)?

	2001	2002	2003
Units Produced	20,000	40,000	80,000
Direct Labor Hours	15,000	12,000	10,000
Direct Material Costs	$140,000	$130,000	$120,000
Actual Overhead Costs	$ 40,000	$ 80,000	$160,000

(1/1)

a) Direct material costs

b) Units

c) Direct Labor Hours

d) All three bases, materials costs, labor hours, or units would be equally appropriate

Correct Answer: b

11) Which of the following is the least logical cost driver for allocating indirect materials cost to three custom-built houses that are different with respect to size? (1/1)

a) Square footage of floor space

b) Direct labor hours

c) Number of houses

d) Expected sales price measured in dollars

Correct Answer: c

12) RST Company uses a cost-plus pricing strategy. RST uses a predetermined overhead rate to allocate fixed manufacturing overhead cost to production on a monthly basis. At the end of the accounting period it was determined that actual overhead cost was more than the estimated overhead cost; however, the actual volume of production was exactly as expected. Based on this information alone: (1/1)

a) Products were overpriced during the accounting period

b) Products were priced accurately during the accounting period

c) Products were under priced during the accounting period

d) The answer cannot be determined from the information provided

Correct Answer: c

13) **Use the following information to answer Questions 13 – 15:**

Gilbert Manufacturing makes two products, Zion and Halo. They are processed from the same material initially and then, after split off, Zion is further processed separately. Additional information is as

follows:

	Zion	**Halo**
Units Produced and Sold	**180 Units**	**60 Units**
Unit Selling Price at Split-Off	**$ 1,200**	**$ 600**
Additional Cost if Processed Further	**$30,000**	
Unit Selling Price after Additional Processing	**$ 1,400**	
Joint Costs	**$108,864**	

The joint costs allocated to each product using the number of units produced and sold would be:

	Zion	Halo
A	$81,648	$27,216
B	$30,000	$78,864
C	$72,864	$36,000
D	$93,312	$15,552

(1/1)

a) A above

b) B above

c) C above

d) D above

Correct Answer: a

14) The joint cost allocated to Zion using the sales value at the split-off point would be: (1/1)

a) $81,648

b) $93,312

c) $15,552

d) $17,143

Correct Answer: b

15) If Zion is further processed, profitability would change by what amount? (1/1)

a) ($6,000)

b) ($36,000)

c) $36,000

d) $6,000

Correct Answer: d

) Which of the following describes the flow of product costs through a manufacturing company? (1/1)

a) Raw materials to finished goods to work in process to cost of goods sold

b) Cost of goods sold to raw materials to finished goods to work in process

c) Raw materials to work in process to finished goods to cost of goods sold

d) Work in process to raw materials to finished goods to cost of goods sold

Correct Answer: c

2) The following information was drawn from the records of Clark Company (CC): beginning balance in work in process inventory was $9,000; ending balance in work in process was $10,000. During the period, CC transferred $26,000 of raw materials to work in process. Labor costs amounted to $32,000 and overhead amounted to $33,000. Based on this information, what was the amount of cost transferred from work in process to finished goods inventory? (1/1)

a) $90,000

b) $91,000

c) $89,000

d) None of the above

Correct Answer: a

3) Bentley Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev	-	Exp.	=	Net Inc.	Cash Flow
+ -		n/a		n/a	n/a		n/a		n/a	n/a

Which of the following accounting events could have caused these effects on Bentley Company's statements?

(1/1)

a) Paid cash to purchase raw materials inventory

b) Transferred cost from work in process to finished goods inventory

c) Recognized revenue from merchandise sold for cash

d) (a) and (b)

Correct Answer: b

4) XYZ Company paid cash for wages of production workers. The recognition of this event will act to: (1/1)

a) Not affect assets, equity, or net income, and decrease cash flow

b) Decrease assets, equity, net income, and cash flow

c) Not affect assets, decrease net income and cash flow

d) Decrease assets, net income, and net cash flow from investing activities

Correct Answer: a

5) Which of the following statements is true? (1/1)

a) The recognition of salaries paid to production workers acts to increase the work in process account

b) The recognition of estimated overhead cost acts to increase the work in process account

c) The transfer of product costs to finished goods inventory acts to decrease the amount of work in process inventory

d) All of the statements are true

Correct Answer: d

6) When a company recognizes depreciation on manufacturing equipment: (0/1)

a) Total assets increase

b) Total assets, equity, and net income decrease

c) Total assets, equity, and net income are not affected

d) None of the above

Correct Answer: c

7) Western Company purchased direct materials on account. The materials cost will be recognized as an expense when: (1/1)

- a) The materials are purchased
- b) The goods made with the materials are sold
- c) The cash is paid to settle the associated accounts payable
- d) The manufacturing process is complete

Correct Answer: b

8) If manufacturing overhead is underapplied, the entry to close the overhead account at the end of the accounting period will act to: (1/1)

- a) Increase net income
- b) Decrease net income
- c) Not affect net income
- d) Increase cash flow from operating activities

Correct Answer: b

9) The following information was drawn from the records of Y Co.: gross margin was $200, sales were $1,400, ending finished inventory was $300, and cost of goods manufactured (i.e., amount transferred from work in process to finished goods) was $800. Based on this information, the beginning balance in finished goods inventory must have been: (1/1)

- a) $750
- b) $800
- c) $700
- d) $850

Correct Answer: c

10) At the beginning of 2002 LMN Company estimated total overhead cost to be $41,200. LMN uses direct labor hours as the allocation base for overhead costs. The company expected to use 10,000 direct labor hours during 2002 and actually used 800 hours of direct labor in the month of January. If actual overhead costs amount to $5,000 during January, the balance in the manufacturing overhead account on January 31 would be:

NOTE: This question and/or answer(s) has been modified on 12-13-07 and may not match your paper copy.

(1/1)

- a) $1,704
- b) $5,000
- c) $3,296
- d) None of the above

Correct Answer: a

11) In which account is the actual amount of depreciation on manufacturing equipment initially recorded? (1/1)

- a) Depreciation Expense
- b) Work in Process Inventory
- c) Manufacturing Overhead
- d) Cost of Goods Sold

Correct Answer: c

12) **Use the following information to answer Questions 12 – 14:**

The XYZ Company was started on January 1, 2001. The company incurred the following transactions during the year: (Assume all transactions are for cash unless otherwise indicated.)

- **Acquired $5,000 of capital from the owners**
- **Purchased $1,400 of direct raw materials**
- **Used $1,000 of the direct raw materials in the production process**
- **Paid production workers $1,800 cash**
- **Paid $1,600 for manufacturing overhead (assume applied and actual overhead are the same)**
- **Started and completed 100 units of inventory**
- **Sold 80 units at a price of $60 each**
- **Paid $800 for selling and administrative expenses**

The amount of finished goods inventory on XYZ's balance sheet at the end of the accounting period would be:

(1/1)

a) $3,520

b) $4,000

c) $880

d) None of the above

Correct Answer: c

13) The amount of cost of goods sold recognized by XYZ is: (1/1)

a) $3,520

b) $4,000

c) $880

d) None of the above

Correct Answer: a

14) The amount of net income recognized by XYZ is: (1/1)

a) $1,280

b) $480

c) $2,080

d) $1,500

Correct Answer: b

15) Teall Company (TC) allocates overhead costs based on direct labor hours. TC estimated direct labor hours to be 80,000 hours and total overhead cost to be $560,000. If actual direct labor worked in February was 7,000 hours, how much overhead cost would be allocated to work in process for the month? (1/1)

a) $56,000

b) $0

c) $480,000

d) $49,000

Correct Answer: d

1) Which of the following businesses is most likely to use a job order cost system? (1/1)

- a) A hospital
- b) An auto manufacturing company
- c) A paint manufacturer
- d) A bank

Correct Answer: a

2) The cost of goods transferred from one department to another is called: (1/1)

- a) Transportation cost
- b) Transfer-in cost
- c) Finished goods cost
- d) None of the above

Correct Answer: b

3) RST's accountant made the following entry into the accounting records:

Work in Process Assembly Department	xxx	
Work in Process Cutting Department		xxx

Which of the following describes the effect of this entry on the accounting equation?

(1/1)

- a) Total assets and total liabilities increase
- b) Total assets are unaffected, but total equity increases
- c) Total assets and total equity are unaffected
- d) Total assets decrease and total liabilities increase

Correct Answer: c

4) Wong Company paid cash wages to production workers. Which of the following choices correctly describes how this event will affect the company's financial statements? (1/1)

- a) Total assets will increase if the company uses a job-order system, but will decrease if the company uses a process-cost system

b) Total assets will not be affected regardless if the company uses a job-order system or a process-cost system

c) Total equity will increase if the company uses a process-cost system but will decrease if it uses a job-order system

d) (a) and (c)

Correct Answer: b

5) AST Electronics installs TV satellite dishes. The company is currently working on two jobs. The job order cost sheets for Job 505 and Job 506 provide the following information.

	Job 505	**Job 506**
Direct Materials	$ 60	$50
Direct Labor	$100	$80

AST applies overhead jobs at $0.70 per direct labor dollar. Job 506 is finished and has been sold for $300. AST's gross margin on Job 506 is:

(1/1)

a) $300

b) $130

c) $186

d) $114

Correct Answer: d

6) **Use the following information to answer Questions 6 and 7:**

The following information was drawn from the accounting records of Glide Manufacturing Company (GMC). As the data suggest, GMC uses a job-order costing system:

	Job 101	**Job 102**	**Job 103**
Direct Materials	**$3,500**	**$4,200**	**$3,300**
Direct Labor	**$2,800**	**$3,600**	**$1,900**

The predetermined overhead rate is set at 120% of direct labor costs. At the end of the accounting period,

Jobs 101 and 102 had been completed and sold. Job 103 was still under construction.

The balance in the work in process inventory is:
(1/1)

- a) $7,480
- b) $5,200
- c) $7,100
- d) None of the above

Correct Answer: a

7) Determine the gross margin recognized on Job 102, assuming it is sold for $18,000. (Ignore any overapplied or underapplied overhead.) (1/1)

- a) $12,120
- b) $5,200
- c) $7,480
- d) $5,880

Correct Answer: d

8) **Use the following information to answer Questions 8 and 9:**

The Leibowitz Company makes stone retainer walls for commercial and residential properties. The company had two walls under construction during the month of February. The data apply to these two jobs:

	Job 40	**Job 41**
Direct Materials	**$12,000**	**$24,000**
Direct Labor	**$26,000**	**$36,000**

At the beginning of the year Leibowitz's accountant estimated that the total annual overhead cost would amount to $360,000 and that the annual direct labor cost would amount to $500,000.

The amount of overhead applied to the work in process account during the month of February is:
(1/1)

- a) $25,920
- b) $62,000
- c) $44,640
- d) None of the above

Correct Answer: c

9) If actual annual labor costs amount to $520,000 and actual annual overhead costs amount to $370,000, overhead will be: (1/1)

- a) Overapplied by $10,000
- b) Overapplied by $4,400
- c) Underapplied by $4,400
- d) Underapplied by $10,000

Correct Answer: b

10) Which of the following companies is most likely to use a process-cost system? (1/1)

- a) Ship building
- b) Home construction
- c) Swimming pool construction
- d) Soft drink bottling

Correct Answer: d

11) Garrett Software Systems (GSS) uses a process cost system. The following data apply to the company's most recent accounting period: GSS started the accounting period with 5,000 units of product in beginning inventory. The company started work on 60,000 units of product during the period. At the end of the period there were 4,000 units of product in work in process inventory. These units were estimated to be 60% complete. Based on this information, the total number of equivalent units (units completed plus units in ending inventory) is: (1/1)

- a) 63,400
- b) 65,000

c) 69,000

d) 61,000

Correct Answer: a

12) **Use the following information to answer Questions 12 and 13:**

A review of Burkowski Manufacturing Company's (BMC) work in process inventory account indicated the following activity measured in units:

Beginning Inventory	**8,000**
Started	**56,000**
Ending Inventory	**6,000**

The ending inventory was estimated to be 80% complete. Product cost in the work in process account at the beginning of the period amounted to $48,000. There was $517,200 of product cost added to the work in process account during the period.

What is the number of equivalent units in Burkowski's ending work in process inventory?
(1/1)

a) 6,000

b) 1,200

c) 4,800

d) None of the above

Correct Answer: c

13) The amount of cost in ending work in process inventory is:
(1/1)

a) $72,000

b) $54,000

c) $62,800

d) $43,200

Correct Answer: d

Twin County Rockers (TCR) makes rocking chairs. The chairs

14) are processed through two departments. Raw lumber is placed into the cutting department where it is made into chair parts. The chair parts are transferred to the assembly department where the chairs are put together. The transfer-in cost for the assembly department would include: (1/1)

- a) The cost of raw lumber
- b) The cost of labor and overhead incurred in the cutting department
- c) The cost of overhead incurred in the assembly department
- d) (a) and (b)

Correct Answer: d

1) Rimes Company makes Caller ID boxes. In the process of making 15,000 boxes Rimes incurred the following costs: Materials, $120,000; Labor $105,000; and Overhead, $150,000. Rimes prices its products at cost plus 40%. Based on this information, the price per box charged by Rimes is: (1/1)

- a) $25
- b) $35
- c) $40
- d) None of the above

Correct Answer: b

2) Chen Manufacturing Company uses target costing. Chen's marketing team has determined that customers would be willing to pay $20 each for an electric pencil sharpener. Chen plans to make and sell 10,000 sharpeners and desires to earn a gross profit that is equal to 25% of cost of goods sold. Based on this information, the total target cost for the 10,000 sharpeners is: (1/1)

- a) $160,000
- b) $250,000
- c) $150,000
- d) None of the above

Correct Answer: a

3) The following information was drawn from the records of Lane Company:

Sales Price	$9 per unit
Variable Cost	$6 per unit
Fixed Cost	$24,000
Units Sold	8,600

Based on this information, the break-even point is: (0/1)

- a) Sales of 8,600 units
- b) Sales of $32,600
- c) Sales of 8,000 units
- d) Sales of $24,000

Correct Answer: c

4) Tawana Sales Corporation sold 5,000 units of a product at a price of $4 each. Total variable cost amounted to $10,000 and fixed costs amounted to $8,000. Based on this information, the break-even point is: (1/1)

- a) Sales of 3,000 units
- b) Sales amounting to $18,000
- c) Sales amounting to $20,000
- d) Sales of 4,000 units

Correct Answer: d

5) Williams reached its break-even point when sales reached 4,000 units. Fixed cost amounted to $60,000 and variable cost per units was $3. Based on this information, the sales price per unit is: (1/1)

- a) $18
- b) $12
- c) $15
- d) None of the above

Correct Answer: a

6) Shah Enterprises (SE) desires to earn a profit of $81,984. SE has total fixed costs of $240,000. The company sells a product that costs $42 each for a price of $74 each. Based on this information, the level of required sales necessary to attain the

company's profit objective is: (1/1)

a) 10,000 units

b) 2,562 units

c) 10,062 units

d) 2,500 units

Correct Answer: c

7) Stabler Company makes glass figurines that are sold for $200 each. During an accounting period in which 6,000 figurines were made and sold, production costs amounted to $900,000 of which $660,000 were variable. General, selling, and administrative costs were $200,000 of which $120,000 were variable. Based on this information, the contribution margin per unit is: (1/1)

a) $110.00

b) $130.00

c) $183.33

d) None of the above

Correct Answer: d

8) **The following information applies to Questions 8 and 9:**

Doster, Inc. makes and sells 65,000 units of a product that has a contribution margin of $14 per unit. Variable costs are $8 per unit and fixed costs amount to $728,000. Doster has an opportunity to purchase new production equipment. The equipment will increase fixed cost by $124,000 and reduce variable cost by $2 per unit. The sales volume will remain at 65,000 units and the sales price will not change if the new production equipment is purchased.

Without giving consideration to the possible purchase of the new production equipment, the sales price per unit of Doster's product is:
(1/1)

a) $6

b) $22

c) $28

d) None of the above

Correct Answer: b

9) If Doster purchases the new production equipment: (1/1)

a) Profitability will decrease by $6,000

b) Profitability will decrease by $14,000

c) Profitability will increase by $6,000

d) Profitability will increase by $14,000

Correct Answer: c

10) **Use the graph on page 657-23-13 of the Study Reference Guide to answer Questions 10 and 11.**

Based on the above graph, total revenue at the break-even point is:
(1/1)

a) Zero

b) $10,000

c) $20,000

d) $30,000

Correct Answer: c

11) Based on the above graph, select the true answer. (1/1)

a) The line represented by the letter (B) is the revenue line

b) The sales price is $2 per unit

c) The line represented by the letter (A) shows how total cost would behave relative to the units being produced

d) At the break-even point, fixed cost is equal to $20,000

Correct Answer: b

12) **The following information pertains to Questions 12 and 13:**

Langford Legal Services Company (LLSC) has fixed costs of $96,000 and variable costs of $120 per hour of service rendered. Clients are charged an hourly rate of $220 per hour. According to LLSC's budget, the company expects to provide clients with 1,200 hours of service.

LLSC's margin of safety expressed as a percentage of budgeted hours is:
(1/1)

- a) 80%
- b) 40%
- c) 20%
- d) 10%

Correct Answer: c

13) LLSC's margin of safety expressed in sales dollars is: (1/1)

- a) $52,800
- b) $264,000
- c) $211,200
- d) None of the above

Correct Answer: a

1) Relevant information is: (1/1)

- a) Based on historical cost
- b) The same for all decision alternatives
- c) Based on sunk cost
- d) None of the above

Correct Answer: d

2) Sing Manufacturing Company is considering an opportunity to outsource a four-function calculator that the Company currently makes and sells. Even if the calculator is outsourced, Sing plans to continue to sell it. Also, Sing plans to continue production on other calculator models that are currently being made by the Company. The cost associated with making the

four-function calculators include unit-level materials, labor, and overhead. In addition, there are some facility-level overhead costs that are allocated to the product. Sing pays a 5% sales commission on each calculator sold. Based on this information, indicate which of the following statements is false. (1/1)

a) The materials cost is relevant to the outsourcing decision

b) The facility-level overhead cost is not relevant to the outsourcing decision

c) The sales commission is relevant to the outsourcing decision

d) It may be wise for Sing to continue to manufacture the four-function calculator even if the relevant cost of buying it is less than the relevant cost of making it

Correct Answer: c

3) Select the true statement. (1/1)

a) Fixed costs are never relevant

b) Variable costs are always relevant

c) A cost can be relevant or irrelevant depending on the circumstances

d) If you know whether a cost is fixed or variable, you will automatically know whether it is relevant or not

Correct Answer: c

4) Select the true statement. (1/1)

a) Unit-level costs are always relevant to special-order decisions

b) Batch-level costs are never relevant to special-order decisions

c) Product-level costs are always relevant to special-order decisions

d) Statements (a) and (b) are true

Correct Answer: a

Furman Enterprises, Inc. makes boat docks. A standard dock

5) includes unit-level materials, labor, and overhead cost. In addition, the company incurs product-level engineering and advertising costs. The sales staff is paid a 10% commission on each dock sold. A sales person has located a land developer who is willing to purchase 12 docks only if he can buy them at an amount that is below Furman's current sales price. Which of the following costs would not be relevant to this special order decision? (1/1)

- a) The unit-level materials, labor, and overhead cost
- b) The sales commissions
- c) The product-level engineering and advertising costs
- d) (a) and (b)

Correct Answer: c

6) Derrick Enterprises (DE) makes surge protectors that are used to protect equipment in electrical storms. The costs associated with making a surge protector are shown below:

Unit-Level	
Materials	$ 7.00
Labor	$12.00
Overhead	$ 3.00
Batch-Level	
Set-up	$4,000 per batch
Product-Level	
Engineering	$ 50,000 per year
Advertising	$120,000 per year

Derrick normally makes and sells 10,000 surge protectors per year which are made in batches containing 1,000 units. Derrick has an opportunity to sell 1,000 protectors at a special order price of $24 per unit. Ignoring qualitative factors, Derrick should:
(1/1)

- a) Accept the offer because it would increase profitability by $2,000
- b) Reject the offer because it would decrease profitability by $2,000
- c) Accept the offer because it would increase revenue by $240,000
- d) Reject the offer because it would decrease profitability

by $4,000

Correct Answer: b

7) **The following information pertains to Questions 7 – 9:**

A production cost summary for Davidson Company follows:

Unit-level direct material	**$ 5.00/unit**
Unit-level direct labor	**$ 2.00/unit**
Unit-level overhead	**$ 6.00/unit**
Product-level overhead	**$ 4.00/unit**
Total cost per unit	**$17.00**

Fixed facility-level selling costs are $600,000 per year and unit-level selling costs are $2. The unit-level selling costs consist primarily of shipping and packaging costs. Production capacity is 400,000 units, but Davidson only expects to produce (and sell) 250,000 units next year. The normal selling price of the product is $30 per unit. A merchant from Venice, Italy has made an offer to purchase 50,000 units at $24 each.

The relevant incremental cost per unit associated with the special order is:
(1/1)

a) $15

b) $13

c) $9

d) $11

Correct Answer: a

8) If Davidson accepts the special order, profitability will: (1/1)

a) Increase by $450,000

b) Decrease by $450,000

c) Increase by $550,000

d) Decrease by $550,000

Correct Answer: a

Select the true statement from the following choices: (1/1)

9)

a) The facility-level selling costs are relevant to the special order decision

b) The product-level production costs are relevant to the special order decision

c) The unit-level selling costs are not relevant to the special order decision

d) All of the statements are false

Correct Answer: d

10) **The following information pertains to Questions 10 – 12:**

Carbo Industries manufactures a component with the following costs:

Unit-level material	**$ 45**
Unit-level labor	**90**
Unit-level overhead	**30**
Facility-level overhead	**60**
Total cost per unit	**$225**

Carbo uses 600 of the components each year. Agent Suppliers has offered to sell the component to Carbo for $202.50 each. Some members of management felt they could reduce costs by buying from Agent. If the component was purchased, Carbo could lease unused production facilities to a non-competing manufacturer for $9,000 per year.

What is the relevant cost of making the component? (1/1)

a) $135

b) $165

c) $180

d) $224

Correct Answer: c

11) If Carbo decides to purchase the 600 components that it currently makes, net income will: (0/1)

a) Increase by $13,500

b) Decrease by $13,500

c) Increase by $17,500

d) Decrease by $17,500

Correct Answer: b

12) Carbo Company should: (1/1)

a) Continue to manufacture the component

b) Purchase the components to obtain a savings of $13,500

c) Purchase the components if Agent reduces the price to $190

d) Purchase the components at the offered price of $202.49

Correct Answer: a

13) Which of the following is a sunk cost? (1/1)

a) Direct material

b) Direct labor

c) Wages of research & development people

d) Existing equipment

Correct Answer: d

14) Billings operates two segments. Income statements for both segments are shown below:

Segments	T	U
Sales	$500,000	$750,000
Unit-Level Variable Cost	(400,000)	(550,000)
Contribution Margin	100,000	200,000
Facility-Level Fixed Cost	(135,000)	(120,000)
Income (Loss)	(35,000)	80,000

Management is considering discontinuing the operation of Segment T. There would be no effect on total facility-level fixed costs, or sales and expenses of Product U. By how much will company-wide income change, if Segment T is eliminated?

(1/1)

- a) $35,000 decrease
- b) $35,000 increase
- c) $100,000 decrease
- d) $135,000 decrease

Correct Answer: c

15) XYZ Company is considering the replacement of a piece of manufacturing equipment. The old equipment originally cost $120,000. This equipment has a book value of $60,000 and a market value of $29,000. It has a remaining useful life of 4 years and a zero salvage value. Operating expenses for the old equipment are expected to be $9,000 per year. The new equipment has a purchase price of $54,000. It is expected to have a useful life of 4 years and a salvage value of $4,000. Operating expenses for the new equipment are expected to be $5,000 a year. If the old machine is replaced, profitability will: (1/1)

- a) Increase by $5,000 over the next four years
- b) Decrease by $5,000 over the next four years
- c) Increase by $9,000 over the next four years
- d) Decrease by $9,000 over the next four years

Correct Answer: b

) The master budget is primarily concerned with: (1/1)

- a) Short-range decisions
- b) Intermediate-range decisions
- c) Long-range decisions
- d) None of the above

Correct Answer: a

2) Capital budgeting deals with: (1/1)

- a) Short-range purchase decisions
- b) Intermediate to long-term asset management

decisions

c) Perpetual budgeting decisions

d) Divisional variance analysis

Correct Answer: b

3) Which of the following would not be included in the cash budget? (1/1)

a) Cash collections from sales

b) Cash payments for selling and administrative expense

c) Cost of goods sold

d) Interest expense

Correct Answer: c

4) Participative budgeting involves: (1/1)

a) Low-level operational employees

b) Middle management

c) Upper-level executives

d) All of the above

Correct Answer: d

5) The starting point in the preparation of the master budget is: (1/1)

a) Schedule of cash receipts

b) Purchases budget

c) Sales budget

d) Schedule of cash payments for selling and administrative expense

Correct Answer: c

6) **The following information pertains to Questions 6 and 7:**

Vostok Company showed the following expected total

sales:

Month	**Sales**
May	**$60,000**
June	**$45,000**
July	**$55,000**
August	**$50,000**

The company expects 40% of its sales to be on account (credit sales). Credit sales are collected as follows: 30% in the month of sale, 65% in the month following the sale with the remainder being uncollectible and written off in the month following the sale.

The budgeted accounts receivable balance on July 30 is: (1/1)

- a) $22,000
- b) $12,000
- c) $15,400
- d) $14,300

Correct Answer: c

7) The total cash inflows from the collection of receivables in June would be: (1/1)

- a) $44,400
- b) $5,400
- c) $13,500
- d) $21,000

Correct Answer: d

8) The Simko Company is in the process of preparing a purchases budget for the second quarter of the 2006 year. Forecasts of sales for the second quarter follow:

April 2006	14,900 units
May 2006	13,500 units
June 2006	16,200 units

The March 2006 sales were 12,500 units. Cost of goods sold is expected to be $8 per unit. Simko would like to have ending inventory each month equal to 15% of the following month's predicted sales. The total cost of purchases in April is:

(1/1)

- a) $117,520
- b) $108,000
- c) $119,200
- d) None of the above

Correct Answer: a

9) **Use the following information to answer Questions 9 and 10:**

Purchases on account are given below:

January	February	March
25,000	**30,000**	**35,000**

80% of the month's purchases will be paid in the month of purchase; the remaining 20% will be paid in the following month.

How much will the cash payment be in February?
(0/1)

- a) $24,000
- b) $25,000
- c) $29,000
- d) $30,000

Correct Answer: c

10) How much will the cash payment be in March? (1/1)

- a) $21,000
- b) $23,000
- c) $28,000
- d) $34,000

Correct Answer: d

11) The accounts payable balance at the beginning of the year was $32,600. The company purchased $180,300 worth of goods on account, and the ending balance of the payables account was $28,900. Payments on account were: (1/1)

- a) $184,000
- b) $196,600
- c) $207,500
- d) $241,800

Correct Answer: a

12) The Zullo Company expects to begin operating on January 1. The Company's master budget contained the following selling and administrative expense budget for January:

Salary Expense	$20,000
Sales Commissions 5% of Sales	10,000
Utilities	1,200
Depreciation on Store Equipment	2,000
Rent	2,400
Miscellaneous	600
Total Operating Expenses	$36,200

Sales commissions are paid in cash in the month following the month in which the expense is recognized. All other expense items requiring cash payment are paid in the month in which they are recognized. The amount of cash paid for operating expenses during the month of January is:

(0/1)

- a) $24,200
- b) $22,200
- c) $36,200
- d) None of the above

Correct Answer: a

13) Sales commissions are 10% of sales. Sales for the quarter are given as follows:

October	November	December
32,000	24,000	46,000

What amount of sales commissions would be transferred to the pro forma income statement for the quarter?
(1/1)

- a) $3,200
- b) $10,200
- c) $1,020
- d) $13,800

Correct Answer: b

14) XYZ Company started the period with $35,000 cash. Cash receipts for January were expected to total $171,000. Cash disbursements for January were expected to be $158,000. What is the expected cash balance to be at the end of January?
(1/1)

- a) $13,000
- b) $48,000
- c) $35,000
- d) None of the above

Correct Answer: b

15) Manufacturing overhead expenses for Candy Corp. are budgeted at $2,000 per month. Included in the $2,000 are $500 worth of monthly depreciation expense and $200 worth of allocated expenses related to manufacturing insurance that is paid in September. What is the cash outflow for overhead for the month of May? (1/1)

- a) $200
- b) $500
- c) $1,300
- d) $1,200

Correct Answer: c

117966		false	117966		false

117966		false	117965		false
117965		false	117965		false
117964		false	117964		false
117964		false	117411		false
117411		false	115319		false
115318		false	115318		false
115318		false	115315		false
115315		false	114638		false
114638		false	114638		false
114636		false	114636		false
114635		false	114635		false
113310		false	113310		false
113310		false	113310		false
113309		false	113309		false
113309		false	111726		false
111725		false	111724		false
111723		false	111723		false
111723		false			

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- b) Intermediate-range decisions
- c) Long-range decisions
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Correct Answer: a

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- a) Short-range purchase decisions
- b) Intermediate to long-term asset management decisions
- c) Perpetual budgeting decisions

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a) Cash collections from sales

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c) Cost of goods sold

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d) All of the above

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b) Purchases budget

c) Sales budget

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117966		false

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The budgeted accounts receivable balance on July 30 is: (1/1)

a) $22,000

b) $12,000

c) $15,400

d) $14,300

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7) The total cash inflows from the collection of receivables in June would be: (1/1)

a) $44,400

b) $5,400

c) $13,500

d) $21,000

Correct Answer: d

8) The Simko Company is in the process of preparing a purchases budget for the second quarter of the 2006 year. Forecasts of sales for the second quarter follow:

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The March 2006 sales were 12,500 units. Cost of goods sold is expected to be $8 per unit. Simko would like to have ending inventory each month equal to 15% of the following month's predicted sales. The total cost of purchases in April is:

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Purchases on account are given below:

January	February	March
25,000	**30,000**	**35,000**

80% of the month's purchases will be paid in the month of purchase; the remaining 20% will be paid in the following month.

How much will the cash payment be in February? (0/1)

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c) $29,000

d) $30,000

Correct Answer: c

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a) $21,000

b) $23,000

c) $28,000

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117966		false

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- a) $184,000
- b) $196,600
- c) $207,500
- d) $241,800

Correct Answer: a

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Sales Commissions 5% of Sales	10,000
Utilities	1,200
Depreciation on Store Equipment	2,000
Rent	2,400
Miscellaneous	600
Total Operating Expenses	$36,200

Sales commissions are paid in cash in the month following the month in which the expense is recognized. All other expense items requiring cash payment are paid in the month in which they are recognized. The amount of cash paid for operating expenses during the month of January is:

(0/1)

- a) $24,200
- b) $22,200
- c) $36,200
- d) None of the above

Correct Answer: a

13) Sales commissions are 10% of sales. Sales for the quarter are given as follows:

October	November	December
32,000	24,000	46,000

What amount of sales commissions would be transferred to the pro forma income statement for the quarter?
(1/1)

a) $3,200

b) $10,200

c) $1,020

d) $13,800

Correct Answer: b

14) XYZ Company started the period with $35,000 cash. Cash receipts for January were expected to total $171,000. Cash disbursements for January were expected to be $158,000. What is the expected cash balance to be at the end of January?
(1/1)

a) $13,000

b) $48,000

c) $35,000

d) None of the above

Correct Answer: b

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a) $200

b) $500

c) $1,300

d) $1,200

Correct Answer: c

117966		false

1) A static budget: (1/1)

a) Is related to the electrical budget

b) Remains constant, regardless of actual volume of production

c) Is adjusted for actual activity levels

d) Is updated on a monthly basis

Correct Answer: b

2) Select the answer that is true. (1/1)

a) When Actual Sales are > Expected Sales, Variances are Unfavorable

b) When Actual Sales are < Expected Sales, Variances are Favorable

c) When Actual Sales are > Standard Costs, Variances are Favorable

d) (a), (b) and (c) are false

Correct Answer: d

3) If actual volume is greater than expected: (1/1)

a) Fixed overhead cost per unit will be higher than expected

b) Fixed overhead cost per unit will be lower than expected

c) Variable cost per unit will not be affected

d) (b) and (c)

Correct Answer: d

4) Lowballing occurs when:

NOTE: This question and/or answer(s) has been modified on 2-22-08 and may not match your paper copy.
(1/1)

a) Marketing managers deliberately underestimate expected sales

b) Production managers deliberately overestimate expected material usage

c) Sales personnel deliberately underestimate expected sales

d) Personnel managers deliberately underestimate expected labor rates

Correct Answer: c

5) Which of the following represents the type of standards that are most likely to motivate employees to maximize their performance? (1/1)

a) Ideal standards

b) Practical standards

c) Lax standards

d) All three choices are likely to have the same effect on employee motivation

Correct Answer: b

119777		false

6) **The following information pertains to Questions 6 and 7:**

The following master budget was drawn from the records of AXE Company. The master budget was based on a planned volume of activity of 5,000 units:

Revenues	**$50,000**
Variable Cost	**(35,000)**
Contribution Margin	**15,000**
Fixed Costs	**(5,000)**
Net Income	**$10,000**

If AXE actually produces 6,000 units, the flexible budget would show total variable cost of:
(1/1)

a) $15,000

b) $35,000

c) $42,000

d) $6,000

Correct Answer: c

7) If AXE actually produced 4,500 units, the flexible budget would show fixed costs amounted to: (1/1)

a) $4,500

b) $1.00 per unit

c) $5,000

d) (a) and (b)

Correct Answer: c

8) **Use the following information for Questions 8 – 11:**

Cole Manufacturing Company expects its variable cost per unit to be $25. Fixed costs are expected to be $69,000. Cole plans to make and sell 5,000 units of its product. The expected sales price is $45 per unit. Each of the following four multiple choice questions should be considered independently. In other words, the facts described in one question should be ignored when considering the other questions.

Assume that Cole reduces the actual sales price to $43 in order to increase actual sales to 5,300 units. The implementation of this strategy will:
(1/1)

a) Produce a favorable sales volume variance of $13,500

b) Produce an unfavorable sales price variance of $10,600

c) Produce a favorable total sales variance of $2,900

d) All of the above

Correct Answer: d

9) Assume that actual volume is 4,800 units and the actual sales price is $47. Based on this information: (1/1)

a) The sales price variance would be $9,600 favorable

b) The sales volume variance would be $9,600 unfavorable

c) The sales volume variance would be $9,000 favorable

d) The sales price variance would be $9,000 favorable

Correct Answer: a

10) Assume that actual volume is 4,900 units and the actual variable cost per unit is $24. Based on this information: (0/1)

- a) The variable cost volume variance is $2,500 favorable
- b) The variable cost flexible budget variance is $2,500 unfavorable
- c) The variable cost volume variance is $2,500 unfavorable
- d) The variable cost flexible budget variance is $2,500 favorable

Correct Answer: a

119777		false

11) Assume that actual volume is 4,700 units and the actual fixed cost is $72,000. Based on the information the amount of fixed cost shown in the flexible budget would be: (1/1)

- a) $72,000
- b) $69,000
- c) $3,000
- d) None of the above

Correct Answer: b

12) Which of the following would be responsible for generating variable cost volume variances? (1/1)

- a) Purchasing agents
- b) Production managers
- c) Sales managers
- d) The company president

Correct Answer: c

13) If planned activity is understated, what consequence is likely? (1/1)

- a) The predetermined overhead rate will be overstated

b) Products are underpriced

c) Per unit fixed cost will not be affected

d) Per unit variable overhead costs are understated

Correct Answer: a

14) **Use the following information to answer Questions 14 and 15:**

Error Correction, Inc. (ECI) makes a white liquid substance that is used to cover errors made on printed documents. ECI expects to use 4 ounces of a chemical known as Fatal per bottle of correction fluid. Fatal is expected to cost $0.40 per ounce. Actual materials cost amounted to $0.46 per ounce. ECI expected to sell 1,000,000 bottles of correction fluid during the accounting period. Actual production amounted to 900,000 bottles and 4,095,000 ounces.

The materials price variance for Fatal is:
(1/1)

a) $245,700 unfavorable

b) $245,700 favorable

c) $40,000 favorable

d) $40,000 unfavorable

Correct Answer: a

15) The materials usage variance for Fatal is: (1/1)

a) $198,000 favorable

b) $198,000 unfavorable

c) $245,700 favorable

d) $245,700 unfavorable

Correct Answer: b

119777		false

A manager of an investment center is responsible for: (1/1)

2)

- a) Expenses, revenue, and major asset purchases
- b) Only for controlling expenses
- c) Relationships between a company and its investors
- d) (a) and (c)

Correct Answer: a

3) Which of the following would improve a firm's return on investment? (1/1)

- a) Raising sales prices and raising expenses
- b) Increasing earnings and investment in assets
- c) Lowering sales prices and increasing asset investment
- d) The answer cannot be determined from the information provided

Correct Answer: d

4) Which of the following statements is false? (1/1)

- a) A manager of a profit center has more responsibility than a manager of a cost center
- b) A manager of an investment center has more responsibility than a manager of a cost center
- c) A manager of a cost center has more responsibility than a manager of an investment center
- d) A manager of an investment center has more responsibility than a manager of a profit center

Correct Answer: c

5) **The following information applies to Questions 5 – 7:**

The 2001 accounting records of Saubert, Inc. indicated that the company had revenues of $250,000, expenses of $150,000, and assets of $400,000.

Saubert's margin is:
(1/1)

- a) 60%

b) 40%

c) 62.5%

d) 15%

Correct Answer: b

121237		false

6) Saubert’s turnover is: (1/1)

a) .6 times

b) .4 times

c) .625 times

d) .15 times

Correct Answer: c

7) Saubert’s return on investment is: (1/1)

a) 20%

b) 25%

c) 10%

d) 15%

Correct Answer: b

8) Sadona Company has a margin of 12% and a turnover of 3 times. Based on this information, Sadona’s return on investment is: (1/1)

a) 12%

b) 30%

c) 120%

d) 36%

Correct Answer: d

9) The electronic clock division of Time Company had budgeted sales of $750,000 and actual sales were $800,000. Budgeted

expenses were $500,000, while actual expenses were $525,000. Based on this information, the responsibility report for the manager of this profit center would show: (1/1)

- a) An unfavorable revenue variance
- b) A favorable cost variance
- c) (a) and (b)
- d) None of the above

Correct Answer: d

10) Maxwell Taylor is responsible for generating revenues, controlling expenses and making purchases of capital assets. Mr. Taylor is a manager of: (1/1)

- a) An asset center
- b) A profit center
- c) A capital center
- d) An investment center

Correct Answer: d

121237		false

11) Which of the following statements about ROI is true? (1/1)

- a) ROI can be determined by dividing the net income by the amount of assets
- b) ROI = Earned Income - Residual Income
- c) ROI = Margin x (1 - Tax Rate)
- d) None of the above

Correct Answer: a

12) Management by exception refers to a strategy that focuses on: (1/1)

- a) Highly successful managers
- b) Unusual business opportunities
- c) Significant variances
- d) Centralized management

Correct Answer: c

13) Annie Boutiques has an average rate of return of 12%. Details of a proposed investment include the following:

Sales Revenues	$20,000
Expenses	14,000
Cost of Asset	30,000

Which of the following statements is accurate?

NOTE: This question and/or answer(s) has been modified on 5-12-09 and may not match your paper copy.
(1/1)

a) The investment should be accepted because it will yield an ROI that is higher than the average ROI

b) Acceptance of the investment opportunity will yield residual income of $2,400

c) Acceptance of the investment opportunity will decrease the company-wide ROI

d) Both (a) and (b)

Correct Answer: d

14) The management of Tarallo Industries obtained the following information about the performance of a major investment project:

Revenues	$200,000
Cost of Investment	300,000
Net Operating Income	48,000

Assuming Tarallo has a desired rate of return of 14%, the project's residual income was:
(1/1)

a) $42,000

b) $28,000

c) $6,000

d) None of the above

Correct Answer: c

121237		false

1) Which of the following statements is true? (1/1)

- a) An advantage of the payback method is that it considers the time value of money
- b) The internal rate of return of a project will be equal to its unadjusted rate of return
- c) If an investment opportunity is acceptable based on its net present value, it will also be acceptable based on its internal rate of return
- d) All methods of capital planning are based on cash flows only

Correct Answer: c

2) Indicate which of the following statements is false? (1/1)

- a) Using a lower interest rate to compute the present value of an investment's future cash flows will cause the present value of those cash flows to be higher
- b) An investment opportunity should be rejected if its internal rate of return is higher than the company's cost of capital
- c) The further into the future a cash flow occurs, the lower its present value will be
- d) A company's minimum desired rate of return should never be less than its cost of capital

Correct Answer: b

3) Fredric Prince’s friend is retiring and has offered to sell Fredric his existing newsstand, Stuff In Print (SIP), that is located in the local airport. All of the equipment at SIP is rented, so all of SIP’s expenses and revenues are in cash. The license to operate SIP expires in eight years, so Fredric assumes he would operate the business for only eight years if he buys it. The annual net cash flow for SIP is expected to be $75,000. If Fredric needs to earn at least 10% on his investment, what is the maximum amount he should pay for SIP? (1/1)

- a) $34,988
- b) $400,119
- c) $503,256
- d) $600,000

Correct Answer: b

4) Mary Garcia, who is 25 years old, wishes to retire with $1,000,000 when she is 45. To accomplish this Mary is going to ask her grandmother for a "nest egg." Assuming she invests the money her grandmother gives her in a mutual fund that is expected to earn 10%, how much money must she get from granny if she hopes to meet her early retirement goal? (1/1)

- a) $161,506
- b) $117,458
- c) $42,568
- d) $148,644

Correct Answer: d

5) Susan Rosen makes pottery and is considering the purchase of a new kiln. The kiln would cost $7,500 and should last five years at which time it will have no salvage value. Susan would incur $1,000 of annual cash expenses to operate the kiln, but she would avoid $3,500 of costs she has been incurring annually to rent space in other potters' kilns. Susan uses straight line depreciation, and her tax rate is 30%. What is the annual net cash flow, after taxes, related to acquiring the new kiln versus continuing to rent kiln space? (1/1)

- a) $2,200
- b) $2,500
- c) $1,800
- d) $700

Correct Answer: a

99563		false

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6) Talbot Inc. is considering replacing an existing machine with a new machine that is more efficient. The following information is available for the proposed project, which has a life of five years.

Cost of new machine	$100,000
Salvage value of new machine at the end of year 5	15,000
Book value of the existing machine	70,000
Trade-in value of existing machine	20,000

Annual cost savings of new machine	18,000
Minimum desired rate of return	12%

What is the net present value of this investment project? (1/1)

- a) $18,072
- b) $43,397
- c) $(8,765)
- d) $(6,603)

Correct Answer: d

7) Jimmy Walsh, a freshman at State University, is considering starting a business in his dorm room that would sell computer supplies such as diskettes and ink cartridges to his fellow students. Jimmy estimates the business would generate $1,500 in net cash flows each of the next four years. To start the business he would need to acquire a computer that costs $2,000 and has an estimated salvage value of $500 at the end of four years. He also must spend $4,000 for inventory items. All of this money will be recovered at the end of year four. Jimmy's cost of capital is 9%.

What is the net present value of this investment opportunity? (1/1)

- a) $(786)
- b) $1,694
- c) $2,048
- d) $8,048

Correct Answer: c

8) Booster Labs is considering acquiring new equipment that management estimates will reduce its cash operating expenses by $50,000 each year for the next five years. After five years, the company believes the equipment will be technologically obsolete and will have no salvage value. The equipment will cost $180,000 and the company will have to spend $20,000 immediately to train its staff to use the new equipment.

What is the internal rate of return of this investment project? (1/1)

- a) 25%

b) 12%

c) 8%

d) 5%

Correct Answer: c

9) Sam Dean is trying to sell his business. To acquire the company, Bill Cohen has offered to make the following payments to Sam:

$80,000 per year for the next nine years, and a "balloon payment" of $1,080,000 at the end of year 10.

If Sam believes 8% is the minimum rate of return he should use when evaluating investment decisions, what is "today's value" of Bill's offer? (1/1)

a) $999,999

b) $833,747

c) $962,944

d) $1,800,000

Correct Answer: a

10) **The following information pertains to Questions 10 and 11:**

Kramer Company has been offered an investment opportunity that, if accepted, will require an initial expenditure of $100,000 to acquire a new machine. The machine has an expected life of eight years and no salvage value. Kramer uses straight line depreciation. Annual cash revenues from the project are estimated to be $20,000, while annual cash expenses are estimated to be $4,000.

What is the payback period of this investment project (rounded to the nearest year)?
(1/1)

a) 6 years

b) 8 years

c) 5 years

d) 29 years

Correct Answer: a

99563		false

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11) What is the unadjusted rate of return of this investment project? (1/1)

- a) 16.0%
- b) 7.5%
- c) 8.0%
- d) 7.0%

Correct Answer: d

12) **The following information pertains to Questions 12 and 13:**

Dennis Harper lives in an area of the west that is becoming a popular tourist destination. Dennis is considering starting an off-road jeep tour business by purchasing a four-wheel-drive jeep. Because he plans to work from his house, the jeep is the only asset he will need to purchase. The jeep will cost $20,000 and will have a life of five years and no expected salvage value. Dennis will use the straight line depreciation method. Dennis estimates the net cash flows of the business for the next five years will be as follows:

Year	Net Cash Flow
1	$6,000
2	8,000
3	7,000
4	6,000
5	5,000

What is the unadjusted rate of return of this investment? (1/1)

- a) 12%
- b) 24%
- c) 60%
- d) 64%

Correct Answer: b

13) What is the payback period of this investment project (rounded to the nearest year)? (1/1)

- a) 2 years
- b) 3 years
- c) 4 years
- d) More than 5 years

Correct Answer: b

14) Juan Su was injured in a traffic accident, which was not her fault. The insurance company of the driver responsible for the accident has offered Juan any one of the following four options to settle the case. Whichever option Juan chooses, she plans to invest the money received in an account that pays an annual interest rate of 8%.

Option 1: $65,000 paid immediately
Option 2: $16,000 paid annually for five years, beginning one year from today
Option 3: $10,000 paid annually for ten years, beginning one year from today
Option 4: $4,800 paid semiannually for ten years, beginning six months from today

Which option should Juan accept?
(1/1)

- a) Option 1
- b) Option 2
- c) Option 3
- d) Option 4

Correct Answer: c

15) The following information is available for four projects under consideration at Orbit Enterprises:

Project 1: This project has an internal rate of return of 12%. Orbit Enterprises' cost of capital is 10%
Project 2: This project has a payback period of four years. Orbit Enterprises' minimum acceptable payback period is five years
Project 3: This project has an unadjusted rate of return of 12%. Orbit Enterprises' cost of capital is 10%
Project 4: This project has a net present value of $-0-, which was computed using factors in the 10% columns of the present

value tables

Based only on the information above and assuming only one project can be accepted, which project would you recommend that Orbit Enterprises accept?
(1/1)

- (●) a) Project 1
- ( ) b) Project 2
- ( ) c) Project 3
- ( ) d) Project 4

Correct Answer: a

99563		false