1. Which following statement is true?

a. The present value of a future dollar is worth less than one dollar.

b. The present value of a future dollar is worth more than one dollar.

c. The present value of a future dollar is equal to one dollar.

d. The present value of a future dollar cannot be determined.

2. The accountant for XYZ Company is evaluating an investment opportunity. The accountant has determined the desired rate of return, the expected investment time period, a series of equal cash inflows expected from the investment, the salvage value of the investment, and the required cash outflows for the investment. Which of the following tables is the accountant most likely to use in analyzing the opportunity?

a. Future Value of Annuity

b. Negotiated Value of a Lump Sum

c. Present Value of a Lump Sum

d. Market Value of an Annuity

3. The rate which equates the present value of cash inflows and outflows is the

a. minimum rate of return.

b. cost of capital.

c. desired rate of return.

d. all of the above.

4. North State, Inc. (NSI) is trying to determine its cash inflows from an investment in new computer equipment. Which of the following would not be considered a cash inflow in determining the present value of the investment opportunity?

a. Cash savings from reductions in labor costs.

b. Cash revenues from existing investments.

c. Cash collections from alternative investment alternatives.

d. All of the above are considered cash inflows.

Use the following information to answer the next two questions:

Harrison, Inc. is considering two investment opportunities. Each investment costs $7,000 and will provide the same total future cash inflows. The schedule of estimated cash receipts for each investment follows (assume cash is received at year-end):

Investment I Investment II

Year 1 $3,000 $1,000

Year 2 2,500 2,000

Year 3 2,000 3,000

Year 4 1,500 3,000

Total $9,000 $9,000

5. Which investment should Harrison choose assuming all other variables for the two investments are the same?

a. Harrison should be indifferent between the two investments since they provide the same total cash inflows.

b. Harrison should choose Investment I because of the time value of money.

c. Harrison should be indifferent between the two investments since the initial cash outflow is the same.

d. Harrison should choose Investment II because it generates larger cash inflows at the end of the investment’s useful life.

6. Assuming an 8% minimum rate of return, what is the net present value of Investment II (round to the nearest whole dollar)?

a. $7,227

b. $227

c. ($7,000)

d. $926

Use the following information to answer the next three questions.

Harcourt Marketing (HM) has the capacity to produce 10,000 fax machines per year. HM currently produces and sells 7,000 units per year. The fax machines normally sell for $100 each. Modem Products has offered to buy 2,000 fax machines from HM for $60 each. Unit-level costs associated with manufacturing the fax machines are $15 each for direct labor and $40 each for direct materials. Product-level and facility-sustaining costs are $50,000 and $65,000, respectively.

7. What is HM's current profit (net income)?

a. $115,000

b. $120,000

c. $200,000

d. $315,000

8. How much would profit increase (decrease) if HM accepted this special order?

a. $10,000

b. $112,000

c. ($10,000)

d. ($112,000)

9. Should HM accept the special offer?

a. yes, unequivocally

b. no

c. yes, if qualitative factors are favorable.

d. no, because GAAP requires all costs to be included in the product

10. To be relevant, information must

a. differ among the alternatives.

b. make a difference in a decision.

c. be future oriented.

d. all of the above.

11. A cost that is not affected by later decisions is called a(n)

a. replacement cost.

b. historical cost.

c. opportunity cost.

d. sunk cost.

12. Tom's Toolery is operating at 80% of its productive capacity. It is currently purchasing for $20 each a part used in its manufacturing operation. Tom's estimates it could make the part internally for a total cost of $24 per unit, consisting of $18 of unit-level production costs and $6 of facility-level costs that are currently attributed to other products. Tom’s usually purchases 50,000 units of the part each year. These units could be manufactured using Tom’s excess capacity. What is the differential increase or decrease in cost derived from making the part rather than purchasing it?

a. $100,000 cost decrease

b. $100,000 cost increase

c. $200,000 cost increase

d. $1,000,000 cost increase

13. The process of assigning costs to two or more cost objects requires

a. cost tracing

b. cost allocation

c. cost/benefit analysis

d. all of the above

14. Of the following statements, which is NOT true concerning indirect costs?

a. An allocation rate for an indirect cost is determined by dividing the total cost to be allocated by an appropriate cost driver.

b. An indirect cost is a cost that cannot easily be traced to a cost object.

c. The economic sacrifice to trace an indirect cost is not worth the informational benefits derived therefrom.

d. An indirect cost may be fixed but cannot be variable.

15. Which of the following would be classified as an indirect cost in a department store? Assume the cost object is the children’s department.

a. sales commissions

b. cost of goods sold

c. utility costs

d. depreciation on cash registers

# Use the following data to answer the next two (2) questions:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Product 1 | Product 2 | Product 3 |
| Direct Material Cost | $25,000 | $30,000 | $35,000 |
| Direct Labor Cost | $30,000 | $40,000 | $50,000 |
| Direct Labor Hours | 1,200 hours | 1,800 hours | 2,000 hours |

Factory overhead is estimated to be $30,000 and is applied based on direct labor dollars. This overhead cost is not traceable to any particular product.

16. Factory overhead allocated to Product 2 is

a. $4,800

b. $7,500

c. $10,000

d. $10,800

17. The total cost of Product 1 is

a. $ 7,500

b. $62,500

c. $64,400

d. $69,200

18. Costs that can be traced to objects in a cost-effective manner are called

a. allocated costs.

b. conversion costs.

c. direct costs.

d. indirect costs.

19. The process of dividing a total cost into parts, and assigning the parts among relevant cost objects is called

a. direct costing.

b. allocation.

c. indirect costing.

d. variable costing.

20. Which of the following is the most logical cost driver for allocating the telephone bill among four departments?

a. square footage of floor space

b. direct labor hours

c. number of telephones

d. sales volume measured in dollars

21. A job order cost system would most likely be used

a. by a fast food restaurant.

b. in personal computer manufacturing.

c. for organ transplant surgery.

d. all of the above.

22. The cost of direct materials

a. is an overhead cost.

b. is a product cost.

c. does not apply to mass production companies.

d. all of the above.

RST’s accountant made the following entry in the accounting records:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Work in Process Inventory | xxx |  |
|  |  |  Raw Materials Inventory |  | xxx |
|  |  |  |  |  |

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

 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.

24. Which of the following statements is false with respect to a process cost system?

a. A process system is likely to be used in the shipbuilding industry.

b. A process system is compatible with a perpetual inventory system.

c. A process system produces the unit cost of a product by averaging total costs over total units.

d. A process system is appropriate to use when a company produces homogeneous, low cost products.

Use the following information to answer the next two questions: ABC Company had 400 units of product in its work in process inventory at the beginning of the period. During the period ABC started 3,900 additional units of product. At the end of the period ABC had 300 units of product in the work in process inventory. ABC estimated the ending work in process inventory was 40% complete. The beginning work in process inventory cost was $888. ABC added $9,000 of product costs to work in process during the period.

25. What is the number of equivalent units in ABC’s ending work in process inventory?

a. 300

b. 120

c. 180

d. none of the above

26. The amount of cost in ending work in process inventory is

a. $690.

b. $600.

c. $800.

d. $288.

Use the following information for Boxware Corporation to answer the next four questions:

 Sales price per unit $190

 Variable cost per unit $ 80

 Average production 1,500 units per month

 Total fixed costs $55,000 per month

27. What is Boxware's contribution margin per unit?

a. $ 80

b. $110

c. $190

d. $270

28. How many units per month must Boxware sell in order to break even?

a. 500

b. 1000

c. 1500

d. 2000

29. What amount of dollar sales must Boxware achieve each month in order to break even?

a. $95,000

b. $190,000

c. $285,000

d. $380,000

30. How many units per month must Boxware sell in order to make a $110,000 profit?

a. 500

b. 1,000

c. 1,500

d. 2,000

31. Strategic planning focuses on

a. short-range decisions.

b. intermediate-range decisions.

c. sales targets.

d. long-range decisions.

32. A plan that formalizes in financial terms the overall goals and objectives of a company is called a

a. capital budget.

b. master budget.

c. participative budget.

d. strategic plan.

33. The beginning inventory is expected to be 2,000 cases. Expected sales are 10,000 cases, and the company wishes to begin the next period with an inventory of 1,000 cases. The number of cases the company must purchase during the month is

a. 11,000 cases.

b. 10,000 cases.

c. 9,000 cases.

d. 13,000 cases.

34. Cash receipts for January are expected to total $171,000. Cash disbursements for January are expected to be $158,000. The company’s minimum desired cash balance is $10,000. It started the period with $35,000. What is the expected cash balance at the end of January?

a. $10,000

b. $48,000

c. $25,000

d. $206,000

Use the following information to answer the next three questions:

Janus Industries has budgeted the following information for January:

Cash Receipts $40,000

Beginning Cash Balance $10,000

Cash Payments $48,000

Desired Ending Cash Balance $ 5,000

If there is a cash shortage, the company borrows money from the bank. All cash is borrowed at the beginning of the month in $1,000 increments. Interest is paid monthly on the first day of the following month. The interest rate is 1% per month. The company had no debt before January 1st.

35. The shortage or surplus of cash before considering cash borrowed or interest payments in January would be

a. $2,000 surplus.

b. $3,000 shortage.

c. $7,000 surplus.

d. $13,000 shortage.

36. After interest expense, the ending cash balance for January would be

a. $5,000.

b. $4,950.

c. $4,970.

d. none of the above.

37. The amount of interest paid in February would be

a. $50.

b. $300.

c. $500.

d. $30.

Use the following information to answer the next two questions: Cox Manufacturing Company prepared the following static budget income statement for 2008:

Sales Revenue $125,000

Variable Costs (75,000)

Contribution Margin 50,000

Fixed Cost (30,000)

Net Income $ 20,000

The budget was based on an expected sales volume of 5,000 units. Actual production was 6,000 units.

38. The amount of net income based on a flexible budget of 6,000 units would have been

a. $24,000.

b. $26,000.

c. $30,000.

d. $45,000.

39. Cox’s actual fixed overhead was $32,000. The volume variance is

a. $2,000 favorable.

b. $2,000 unfavorable.

c. $4,000 unfavorable.

d. $6,000 favorable.

40. Marjorie Jewels, a maker of fashionable rings, produced and sold 6,000 rings during the recent accounting period. The company had expected to sell 5,600 rings. Because of competition, the company priced the rings at $20 each, $2 lower than the budgeted selling price. Based on this information, there is

a. a favorable $8,000 sales volume variance.

b. an unfavorable $800 total sales variance.

c. an unfavorable sales price variance.

d. all of the above.

41. Which employees would most likely be held responsible for a volume variance?

a. production workers

b. marketing managers

c. purchasing agents

d. production managers

42. If planned activity is overstated, what consequence is likely?

a. The predetermined overhead rate will be overstated.

b. Products are underpriced.

c. Products are overpriced.

d. Per unit variable overhead costs are understated.

Use the following information from KLM Company’s income statements to answer the next three questions:

|  |  |  |  |
| --- | --- | --- | --- |
|  | *2009* |  | *2008* |
| Sales  | $121,000 |  | $92,000 |
| Cost of Goods Sold  |  75,000 |  | 51,000 |
| Selling Expenses  | 12,000 |  | 11,000 |
| Administrative Expenses  | 12,000 |  | 14,000 |
| Interest Expense | 3,000 |  | 5,000 |
|  Total Expenses  | 102,000 |  | 81,000 |
| Income Before Taxes  |  19,000 |  | 11,000 |
| Income Taxes  | 3,800 |  | 2,000 |
| Net Income  | $ 15,200 |  | $ 9,000 |
|  |  |  |  |

43. Horizontal analysis indicates that KLM’s sales grew by

a. (23.97)%.

b. (31.52)%.

c. 23.97%.

d. 31.52%.

44. Based on horizontal analysis, which of the following is true?

a. Sales grew more rapidly than cost of goods sold.

b. Cost of goods sold grew more rapidly than selling expenses.

c. Administrative expenses declined by 16.7%.

d. both b and c are true.

45. Based on vertical analysis of KLM’s income statements, which of the following is true?

a. KLM produced more net income per sales dollar in 2008 than in 2009.

b. KLM’s selling expenses were a smaller percentage of sales in 2008 than in 2009.

c. KLM’s total expenses were a greater percentage of sales in 2008 than in 2009.

d. all of the above are true.

Use the following information from XYZ Company’s balance sheet to answer the next five questions:

|  |  |  |
| --- | --- | --- |
| Assets |  |  |
|  Cash  | $ 6,000 |  |
|  Marketable Securities  | 3,200 |  |
|  Accounts Receivable  | 5,200 |  |
|  Inventory  | 14,400 |  |
|  Property and Equipment  | 68,000 |  |
|  Accumulated Depreciation  | (5,000) |  |
|  Total Assets  | $91,800 |  |
|  |  |  |
| Liabilities and Stockholders’ Equity |  |  |
|  Accounts Payable  | $ 3,400 |  |
|  Notes Payable (current)  | 1,400 |  |
|  Mortgage Payable (long-term)  | 1,800 |  |
|  Bonds Payable (long-term)  | 28,600 |  |
|  Common Stock, $50 Par  | 24,000 |  |
|  Paid-in Capital in Excess of Par  | 11,600 |  |
|  Retained Earnings  | 21,000 |  |
|  Total Liab. and Stockholders’ Equity  | $91,800 |  |
|  |  |  |

The average number of common stock shares outstanding during the year was 840 shares. Net earnings for the year were $6,300.

46. XYZ’s current ratio is

a. 6.0 to 1.

b. 5.5 to 1.

c. 4.0 to 1.

d. 4.5 to 1.

47. XYZ’s quick (acid-test) ratio is

a. 4.0 to 1.

b. 4.5 to 1.

c. 3.5 to 1.

d. 3.0 to 1.

48. XYZ’s earnings per share is

a. $7.50 per share.

b. $7.00 per share.

c. $0.13 per share.

d. none of the above.

49. XYZ’s return on equity is

a. 2.56%.

b. 8.98%.

c. 11.13%.

d. none of the above.

50. XYZ’s debt to equity ratio is

a. 75.00%.

b. 62.19%.

c. 34.23%.

d. 22.22%.