



## FINAL EXAM

### Course # 171022 101 Financial Solutions

based on the electronic .pdf file(s):

#### **101 Financial Solutions**

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12 CPE Credit Hours  
Accounting & Auditing

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## Chapter 1 - Pricing, Sales, And Advertising Miss Margins

1. \_\_\_\_\_ is NOT a sign of revenue base erosion:
  - A decline in sales and other sources of revenue
  - A loss in market share to competitors
  - An early stage in product's life cycle
  - Selling prices marked down
  
2. When considering a special order that will enable a company to make use of currently idle capacity, which of the following costs is irrelevant?
  - Materials
  - Fixed costs (e. g. , depreciation, rent)
  - Direct labor
  - Variable overhead
  
3. High levels of merchandise returns are NOT caused by:
  - Poor-quality merchandise
  - Innovative advertising
  - Incorrect or excessive pricing
  - Failure to meet specifications

## Chapter 2 - Inventory And Production Shortfalls

4. \_\_\_\_\_ is NOT a cause for low turnover of merchandise:
  - Slow sales
  - Lack of demand for products
  - Inventory and sales meeting demands
  - Deficiencies in the product line
  
5. Which condition justifies a low inventory turnover ratio?
  - High carrying costs
  - High stockout costs
  - Short lead times
  - Low ordering costs
  
6. For inventory management, ignoring safety stocks, which of the following is a valid computation of the reorder point?
  - The economic order quantity
  - The economic order quantity times the anticipated demand during lead time
  - The anticipated demand per day during lead time times lead time in days

The square root of the anticipated demand during the lead time

7. The carrying costs associated with inventory management include:

Insurance costs, shipping costs, storage costs, and obsolescence

Storage costs, handling costs, interest on capital invested, and obsolescence

Purchasing costs, shipping costs, setup costs, and quantity discounts lost

Obsolescence, setup costs, interest on capital invested, and purchasing costs

8. The order costs associated with inventory management include:

Insurance costs, purchasing costs, shipping costs, and obsolescence

Obsolescence, setup costs, quantity discounts lost, and storage costs

Purchasing costs, shipping costs, setup costs, and quantity discounts lost

Quantity discounts lost, storage costs, handling costs, and interest on capital invested

9. The purpose of the economic order quantity (EOQ) model is to:

Minimize the safety stock

Minimize the sum of the order costs and the carrying costs

Minimize the inventory quantities

Minimize the sum of the demand cost and the backlog costs

10. The economic order quantity (EOQ) will rise following:

A decrease in annual unit sales

An increase in carrying costs

An increase in the per-unit purchase price of inventory

An increase in the variable costs of placing and receiving an order

11. The economic order quantity (EOQ) formula assumes that:

Purchase costs per unit differ because of quantity discounts

Costs of placing an order vary with quantity ordered

Periodic demand for the good is known

Erratic usage rates are cushioned by safety stocks

12. \_\_\_\_\_ is used in enterprise supply chain management to improve the efficiency of inventory tracking and management.

RFID

JIT

EOQ

SKU

13. Lack of inventory storage space may be a result of

Decrease in production efficiency

Missed production deadlines

Improper production planning

Missing parts

### Chapter 3 - Profit Targets Are Off

14. \_\_\_\_\_ is the degree or amount that sales may decline before losses are incurred:

Margin of safety

Residual income rate

Marginal rate of return

Target (hurdle) rate of return

15. Contribution margin is the excess of revenues over:

Cost of goods sold

Manufacturing cost

Direct cost

All variable costs

16. The most likely strategy to reduce the breakeven point would be to:

Increase both the fixed costs and the contribution margin

Decrease both the fixed costs and the contribution margin

Decrease the fixed costs and increase the contribution margin

Increase the fixed costs and decrease the contribution margin

17. Basic break-even and CVP models are subject to limiting assumptions such as:

The selling price per unit is nonlinear

Costs classified as fixed costs

There is uncertain sales mix

Inventories do not change from period to period.

18. Generally, the lower the break-even point, the higher the profit and the less the \_\_\_\_\_, other things being equal. F

Operating risk

Financial risk

Systematic risk

Market risk

19. When used in cost-volume-profit analysis, sensitivity (what-if) analysis:

Determines the most profitable mix of products to be sold

Allows the decision maker to introduce probabilities in the evaluation of decision alternatives

Is done through various possible scenarios and computes the impact on profit of various predictions of future events

Is limited because in cost-volume-profit analysis, costs are not separated into fixed and variable components

20. The difference between sales and total variable costs is:

Gross operating profit

Net profit

The breakeven point

The contribution margin

21. Problems of weak sales mix are caused by all EXCEPT:

Easier to sell cheaper items than top-of-the-line

Sales mix occurs as budgeted

Sales quotas are set in number of units sold rather than profit

Shift in sales mix toward less profitable products

22. Falling sales and/or profit margin is usually NOT a result of:

Stock options

Cost overruns

Inaccurate pricing

Ineffective advertising

## Chapter 4 - Risk-Return Unbalance

23. What are the risk and the risk-return trade-off:

The lesser the risk, the greater the return expected

The greater the risk, the greater the return expected

The greater the investment, the lesser the risk expected

The greater the investment, the greater the return expected

24. Which of the following are components of interest-rate risk?

Purchasing-power risk and default risk

Price risk and market risk

Portfolio risk and reinvestment-rate risk

Price risk and reinvestment-rate risk

25. Lack of diversification can be identified by all EXCEPT:

Increased risk

Highly specialized and concentrated operations

Lower profitability

Operating leverage

26. The type of risk that is NOT diversifiable and affects the value of a portfolio is:

Purchasing-power risk

Market risk

Nonmarket risk

Interest-rate risk

27. The risk that securities cannot be sold at a reasonable price on short notice is called:

Default risk

Liquidity risk

Interest-rate risk

Purchasing-power risk

28. A warning sign of financial problems does NOT include:

Costly inventory buildups

Incompatible and uncoordinated projects

Actual costs below standard production costs

Operating inefficiencies

## Chapter 5 - Inability To Finance Weakens Business Development

29. Market price drops of stock can be caused by all EXCEPT:

Market conditions

Excessive business risk

Foreign competition

Updated technology to meet market needs

30. Moody's and Standard & Poor's debt ratings depend on:

The chances of default

The size of the company

The size and the type of issue

The firm's industry

31. If a bond is rated below BBB, it is called:

A zero-coupon bond

An investment grade bond

A junk bond

An income bond

32. Dividends per share/market price per share is

- Current yield
- Dividend yield
- Yield to maturity
- Dividend payout ratio

## Chapter 6 - Business Control Threatened

33. Which of the following cannot lead to bankruptcy?

- Declining profitability
- Cash flow inadequacies
- Unavailability of financing
- Aggressive expansion/growth of business

34. Management can take many steps to protect itself against business failure excludes

- Avoiding excessive debt
- Reducing prices on fast-moving inventory
- Restricting capital expansion
- Selling off unprofitable business segments.

35. An investor has calculated Altman's Z-Score for each of four possible investment alternatives. Each firm is a public industrial firm. The calculated scores for the four investments were as follows: Firm W = 3.89; Firm X = 2.48; Firm Y = 2.00 and Firm Z = 1.10. Given this info, which statement is true?

- Z is least risky and W is most risky
- Y is least risky and W is most risky
- W is least risky and Z is most risky
- X is least risky and W is most risky

36. A defensive measure defines as when the target buys back stock accumulated by the raider at a premium price is:

- Green mail
- Poison pill
- Golden parachute
- White knight

## Chapter 7 - Cash Flow Disturbances

37. Cash-related ratios to be computed by management do NOT include:

- Cash from sales to total sales
- Cash debt coverage equals cash flow from operations less dividends divided by total debt

- Cash dividends coverage equal to cash flow from operations divided by total dividend
- Current ratio

38. To generate adequate cash flow, you do the following EXCEPT:

- Obtain immediate financing
- Do not delay cash payments
- Establish open line of credit
- Sell assets to generate cash

39. When investing surplus funds, aggressive cash managers seek:

- Maximizing yields
- Minimizing taxes.
- Investing in Treasury bonds since they have no default risk,
- Liquidity and safety.

40. Which of the following is NOT an early warning sign for going broke?

- The company shows a profit but has no cash.
- Management mistakes accounts receivable for cash, while daily payments are made for inventory purchases, payroll, and taxes.
- The company fails to budget properly for capital expenditures and emergencies.
- The company shows increasing overhead.

41. The average collection period for a firm measures the number of days:

- After a typical credit sale is made until the firm receives the payment.
- For a typical check to "clear" through the banking system.
- Beyond the end of the credit period before a typical customer payment is received.
- Before a typical account becomes delinquent.

## Chapter 8 - Mess In Accounts Payable And Receivable

42. Vendor's price increases can be prevented by all EXCEPT:

- Accumulate stocks of supplies and raw materials
- Enter into futures contracts for later date delivery
- Enter into long-term supply arrangements
- Use horizontal integration

43. Using a 360-day year, what is the opportunity cost to a buyer of not accepting terms 2/10, net 30?

- 24. 70%
- 31. 81%
- 36. 70%



101. 73%

44. \_\_\_\_\_ do(es) NOT affect credit ratings:

- Market conditions
- Excessive new and innovative assets
- Excessive business risk
- The quality of management

45. Which of the following measures does NOT aim at preventing check fraud and improper payments?

- Review, evaluate, and install new internal control procedures for cash disbursement
- Perform a monthly bank reconciliation
- Purchase an insurance policy for reimbursement of any actual future losses
- Account for all check numbers issued during the month ending on the audit date

## Chapter 9 - Lackluster Financial Statements

46. \_\_\_\_\_ is NOT an example of liquidity ratio:

- Cash ratio
- Cash burn rate
- Times interest earned
- Current ratio

47. An early warning signal of inadequate liquidity does NOT include:

- Failure to pay bill or debts on time
- Higher profitability
- Inability to buy inventory or assets
- Deteriorating credit rating

48. Return on Investment (ROI) CANNOT be enhanced by management:

- Improving margin
- Improving turnover
- Improving both turnover and margin
- Improving liquidity

49. ROE is:

- ROI x equity multiplier
- Net Profit after Taxes / Total Assets
- Net profit margin x total asset turnover
- ROI x debt ratio

50. A lower rate of return can be detected early by

- High asset turnover
- Lower earnings estimates by broker analyst
- lower beta rankings
- Low management turnover

51. Which of the following is NOT a sign for poor-quality earnings?

- Lower price/earnings ratio
- Lower cost of financing
- Unavailability of suitable financing
- Higher compensating balances and security for loan agreements

## Chapter 10 - Costs Out Of Control

52. Stability in product revenue can be determined by computing the \_\_\_\_\_ in sales over five to ten years.

- Correlation
- Beta coefficient
- Standard deviation
- Expected return

53. Excessive labor costs are caused by all EXCEPT:

- Lack of supervision
- Giving-in to the union
- Adequate training
- Obsolete machinery and equipment

54. The percentage change in earnings before interest and taxes associated with the percentage change in revenues is the degree of:

- Operating leverage
- Financial leverage
- Breakeven leverage
- Combined leverage

55. An accounting system that collects financial and operating data on the basis of the underlying nature and extent of the cost drivers is:

- Activity-based costing
- Target costing
- Cycle-time costing
- Variable costing

56. A profit-maximizing firm would never choose to lower its price in the \_\_\_\_\_ range of its demand curve.

- Inelastic
- Elastic
- Unitary
- Extreme

## Chapter 11 - Budgeting And Cost Control Problems

57. Actual costs exceeding budgeted costs are caused by all EXCEPT:

- Economy of scale
- Lack of cost control and planning
- Lack of efficiency and cost management
- Duplication of effort and facilities

58. An efficiency variance equals:

- A flexible budget amount minus a static budget amount
- $(\text{standard quantity} \cdot \text{actual quantity}) \times \text{standard price}$
- Actual operating income minus flexible budget operating income.
- Actual unit price minus budgeted unit price, times the actual units produced

## Chapter 12 - Fragile Internal Controls

59. Record keeping errors can be identified by all EXCEPT:

- Misstated financial statement figures
- Extension of audit report due date
- Stable audit fees
- Incomplete records

## Chapter 13 - Tax Planning And Preparation

60. Which of the following statement is false regarding the election of an S corporation?

- All shareholders must be individuals, estates, or certain kinds of trusts.
- The shareholders cannot be nonresident aliens.
- The corporation may never have more than 70 shareholders
- The corporation's election of S corporation status is valid only if all shareholders consent to the election.

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