FINAL EXAM

Course # 171026
Accounting and Finance for Business Operations

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Chapter 1 - Essentials Of Accounting And Finance

1. Managers spend a good portion of time:

   ______ Delegating

   ______ Purchasing

   ______ Processing

   ______ Planning

2. Capital investments projects do NOT include:

   ______ Property

   ______ Plant

   ______ Inventory

   ______ Equipment

3. The Controller is responsible for all EXCEPT:

   ______ Custody of records

   ______ Legal work

   ______ Budgeting

   ______ Payroll

4. The three major types of business entities are:

   ______ Profit, nonprofit, and corporate organizations

   ______ Corporations, partnerships, and proprietorships

   ______ Corporations, associations, and nonprofit organizations

   ______ Institutions, partnerships, and corporations

5. A business owned by two or more people is called a:

   ______ Nonprofit organization

   ______ Partnership

   ______ Corporation

   ______ Sole proprietorship

6. An S corporation cannot have more than ______________ shareholders.

   ______ 35

   ______ 20

   ______ 75

   ______ 100

7. ____________ are typically not permitted to carry on certain service businesses (e.g., law, medicine, and accounting).

- [ ] Partnerships
- [ ] LLCs
- [ ] S Corporations
- [ ] C corporations

Chapter 2 - Types Of Cost Data And Cost Analysis

8. _________________ are related to time rather than to producing the product (e.g., advertising costs, sales commissions, and administrative salaries).

- [ ] Product costs
- [ ] Conversion costs
- [ ] Period costs
- [ ] Prime costs.

9. The wood in an oak desk is an example of:

- [ ] Direct materials
- [ ] Indirect materials
- [ ] Direct labor
- [ ] Indirect labor

10. Prime costs consist of:

- [ ] Direct materials and direct labor
- [ ] Direct labor and manufacturing overhead
- [ ] Direct materials and manufacturing overhead
- [ ] Fixed and variable costs

11. Conversion costs consist of

- [ ] Direct materials and direct labor
- [ ] Direct labor and manufacturing overhead
- [ ] Direct materials and manufacturing overhead
- [ ] Fixed and variable costs

Chapter 3 - Contribution Analysis

12. _______________________ is not very useful for decision analysis.

- [ ] Contribution margin
- [ ] Margin of safety

- ______ Profit margin
- ______ Gross margin

13. Contribution margin is calculated as:

- ______ Sales minus cost of goods sold
- ______ Sales minus total variable costs
- ______ Sales minus total variable manufacturing costs
- ______ Sales minus total variable manufacturing costs and total fixed manufacturing costs

14. The contribution margin ratio is calculated as:

- ______ Total contribution margin divided by total revenues
- ______ Total contribution margin divided by total variable costs
- ______ Total variable costs divided by contribution margin
- ______ Income divided by contribution margin

Chapter 4 - Break-Even And Cost-Volume-Profit Analysis

15. The break-even point in sales dollars is computed using the:

- ______ Fixed costs divided by the contribution margin ratio
- ______ Variable costs expressed as a percentage of sales
- ______ Fixed costs expressed as a percentage of sales
- ______ Sales revenue expressed as a percentage of net income

16. The formula that can be used to calculate unit sales necessary in order to earn a desired profit is:

- ______ (fixed costs + contribution margin)/variable cost ratio
- ______ (fixed costs + desired profit)/ unit CM
- ______ (fixed costs + variable costs)/CM ratio
- ______ (fixed costs + desired profit)/(1 - sales ratio)

17. Sales mix is the relative combination of:

- ______ Inputs required to produce a product
- ______ Outputs produced by a firm
- ______ Products sold by a firm
- ______ Distribution channels used by a firm

18. The ______________ measures the percentage change in profits resulting from a percentage change in sales.

- ______ Variable cost ratio
- ______ Contribution margin ratio
- ______ Degree of operating leverage
- ______ Sales margin ratio

Chapter 5 - Relevant Cost And Making Short-Term Decisions

19. ___________ refer to all the manufacturing costs incurred prior to the split-off point.

- ______ Separation costs
- ______ Joint costs
- ______ Processing costs
- ______ Transferred-in costs.

20. For a cost or revenue to be relevant to a particular decision, the cost or revenue must

- ______ Differ between the alternatives being considered
- ______ Be a past cost
- ______ Be a sunk cost
- ______ Continue regardless of the decision

21. ______________ are the result of past decisions and cannot be changed by current or future actions.

- ______ Sunk costs
- ______ Opportunity costs
- ______ Avoidable costs
- ______ Differential costs

Chapter 6 - Forecasting Cash Needs And Budgeting

22. Forecasting tries to

- ______ Neutralize hedge
- ______ Minimize uncertainty or risk about the future
- ______ Minimize costs
- ______ Plan ahead

23. The _____________________ is immediately followed by the sales budget:

- ______ Cash budget
- ______ Production budget
- ______ Direct materials budget
- ______ Selling and administrative budget

Chapter 7 - Cost Control And Variance Analysis

24. Variance analysis is a tool used to:

- ______ Evaluate financial performance
- ______ Evaluate customer satisfaction
- ______ Determine cost ratios
- ______ Identify and control product compatibility

25. Variances indicate:

- ______ The cause of the variance
- ______ Who is responsible for the variance
- ______ That problems exist
- ______ When the variance should be investigated

26. When should variances be investigated?

- ______ When they fall out of the accepted range or the control limit
- ______ When the variances are unfavorable
- ______ When the variances are over $10,000
- ______ All variances should be investigated

27. The performance evaluation of a cost center is typically based on its:

- ______ Sales volume variance
- ______ ROI
- ______ Flexible budgeting
- ______ Static budget variance

28. The standard quantity allowed for actual output is used in the calculation of which of the following variances?

- ______ It is NOT used in the Materials Price Variance, and it is NOT used in the Materials Quantity (Usage) Variance
- ______ It is NOT used in the Materials Price Variance, but it is used in the Materials Quantity (Usage) Variance
- ______ It is used in the Materials Price Variance, but it is NOT used in the Materials Quantity (Usage) Variance
- ______ It is used in the Materials Price Variance, and it is used in the Materials Quantity (Usage) Variance

29. Under a standard cost system, the labor rate variances are usually the responsibility of the:

- ______ Production manager
- ______ Cost accounting manager
- ______ Human resource manager
- ______ Purchasing manager

30. Under a standard cost system, the sales price variances are the responsibility of:

- ______ Production supervisor and foreperson
- ______ Marketing and sales
- ______ Purchasing and sales

- [ ] Sales and industrial engineering

31. An unfavorable direct labor efficiency variance could be caused by a(n):

- [ ] Unfavorable fixed overhead spending variance
- [ ] Favorable labor rate variance
- [ ] Unfavorable variable overhead volume variance
- [ ] Poor supervision

32. How is labor efficiency variance computed?

- [ ] The difference between standard and actual rates, times actual hours
- [ ] The difference between standard and actual rates, times standard hours allowed
- [ ] The difference between standard and actual hours, times standard rate
- [ ] The difference between standard and actual hours, times the difference between standard and actual rates

Chapter 8 - Managing Financial Assets

33. Working capital consists of:

- [ ] Equipment
- [ ] Inventory
- [ ] Bonds payable
- [ ] Revenue

34. When a firm finances each asset with a financial instrument of the same approximate maturity as the life of the asset, it is applying:

- [ ] Working capital management
- [ ] Return maximization
- [ ] Financial leverage
- [ ] A hedging approach

35. A lock-box system

- [ ] Reduces the need for compensating balances
- [ ] Accelerates the inflow of funds
- [ ] Provides security for late night deposits
- [ ] Reduces the risk of having checks lost in the mail

36. Which one of following is least likely an investment vehicle for excess cash?

- [ ] Time deposits
- [ ] Corporate bonds
- [ ] Money market funds
- [ ] Bankers' acceptances

37. A working capital technique that increases the payable float and therefore delays the outflow of cash is:

- [ ] Concentration banking
- [ ] A draft
- [ ] Electronic Data Interchange (EDI)
- [ ] A lockbox system

Chapter 9 - Managing Accounts Receivable And Credit

38. You can increase your rate of return by:

- [ ] Extended credit
- [ ] Accelerated cash receipts and delay cash payments
- [ ] Increase cash payments
- [ ] Make early cash payments

39. The cost of a product is 30% of the selling price, and the carrying cost is 12% of the selling price. On the average, accounts are paid 90 days after the sale date. Sales average $30,000 per month. What is your accounts receivable for this product?

- [ ] $90,000
- [ ] $120,000
- [ ] $270,000
- [ ] $30,000

40. Your accounts receivable (A/R) amounts to $100,000. The cost of a product is 30% of the selling price, and the carrying cost is 10% of the selling price. What is the amount of investment in A/R?

- [ ] $100,000
- [ ] $10,000
- [ ] $40,000
- [ ] $30,000

Chapter 10 - Managing Inventory

41. Economic order quantity refers to the order size that:

- [ ] Minimizes the size of the order
- [ ] Minimizes the carrying costs associated with inventory
- [ ] Minimizes total inventory costs
- [ ] Minimizes the ordering costs associated with inventory

42. One of the elements included in the economic order quantity (EOQ) formula is:

- [ ] Safety stock
- [ ] Annual demand (usage)

- Selling price of item
- Lead time for delivery

43. The amount of inventory that a company would tend to hold in stock would increase as the:

- Sales level falls to a permanently lower level
- Cost of carrying inventory decreases
- Variability of sales decreases
- Cost of running out of stock decreases

44. The Stewart Co. uses the economic order quantity (EOQ) model for inventory management. A decrease in which one of the following variables would increase the EOQ?

- Annual sales
- Cost per order
- Safety stock level
- Carrying costs

Chapter 11 - The Time Value Of Money

45. If a loan is to be repaid in equal periodic amount it is:

- Personal loan
- Amortized loan
- Commercial loan
- Variable loan

46. The basic idea of time value of money is that money received in the future is:

- Not as valuable as money received today
- More valuable than money received today
- Increases in value with time
- Future value

47. Which of the following is true regarding capital rationing decisions?

- Companies should always rank the investment with the payback period
- Companies should rank the investments with the profitability index
- Companies should always choose the investment with the highest IRR
- Companies should always choose the investment with the highest ARR

Chapter 12 - Capital Budgeting Decisions

48. Long-term investment projects do NOT include investments in:

______ Property and plant

______ Information technology (IT)

______ New product development

______ Yearly tax deductions

49. Several methods of evaluating investments are all EXCEPT:

______ Payback period

______ Nonprofit ratio

______ Net present value (NPV)

______ Internal rate of return (IRR)

50. The newest rule for computing depreciation for tax purposes is called the

______ Accelerated depreciation method

______ Modified accelerated cost recovery system (MACRS)

______ Accelerated cost recovery system (ACRS)

______ Accelerated depreciation range

51. Sally, Inc. is considering the purchase of an investment that has a negative net present value based on Sally's 10% hurdle rate (minimum required rate of return). The internal rate of return would be:

______ 0

______ < 10%

______ 10%

______ > 10%

Chapter 13 - Improving Managerial Performance

52. _______________ is NOT an action management can take to enhance rate of return on investment (ROI):

______ Improve margin by reducing expenses, raising selling prices, or increasing sales faster than expenses

______ Improve turnover by increasing sales while holding the investment in assets relatively constant, or by reducing assets

______ Improve both

______ Enhance the cost of capital

53. The breakdown of ROI into margin and turnover is popularly known as

______ The ROI formula

______ The Du Pont formula

______ The Margin-Turnover Relationship

______ The breakdown principle

Chapter 14 - Evaluating And Improving Your Department'S Performance

54. Which of the following is NOT a responsibility center?

- ______ Cost center
- ______ Asset center
- ______ Profit center
- ______ Investment center

55. The best transfer price is the __________________ of the assembled product or service since it is a fair price and treats each profit center as a separate economic entity. .

- ______ Cost plus price
- ______ Dual price
- ______ Negotiated market value
- ______ Outside market price

Chapter 15 - Sources Of Short-Term Financing

56. Which one of the following provides a spontaneous source of financing for a firm?

- ______ Trade credit (accounts payable)
- ______ Mortgage bonds
- ______ Accounts receivable
- ______ Debentures

57. An example of secured short-term financing is

- ______ Commercial paper.
- ______ A warehouse receipt.
- ______ A revolving credit agreement.
- ______ Trade credit.

58. __________________ are often used to finance the shipment handling of both domestic and foreign merchandise.

- ______ Agency securities.
- ______ Bankers' acceptances.
- ______ Commercial paper.
- ______ Repurchase agreements.

59. Commercial paper:

- ______ Ordinarily does not have an active secondary market
- ______ Has a maturity date greater than 1 year
- ______ Is issued by corporations of any size

- ______ Has an interest rate higher than a bank loan

Chapter 16 - Considering Term Loans And Leasing

60. Intermediate-term loans do NOT include

- ______ Repurchase agreements
- ______ Debentures
- ______ Insurance company term loans
- ______ Equipment financing

61. Revolving credit is used mainly for:

- ______ Long-term financing
- ______ Seasonal financing
- ______ Capital financing
- ______ Renovation financing

Chapter 17 - Long-Term Debt And Equity Financing

62. An issuer of new securities selects an investment banker by

- ______ A negotiated deal.
- ______ Best efforts.
- ______ A general cash offer or a rights offer.
- ______ A firm commitment.

63. When dealing with venture capital firms, do NOT:

- ______ Read the fine print
- ______ Watch for delay maneuvers
- ______ Guard your trade secrets
- ______ Give up an ownership interest

64. Bond holders are:

- ______ Creditors
- ______ Debtors
- ______ Entrepreneurs
- ______ Risk takers

65. Zero-coupon bonds:

- ______ Are initially sold at par value (a zero discount)

- [ ] Are issued at prices significantly below face value
- [ ] Are initially sold for a price above par value
- [ ] Are tax free

66. Which of the following is false about junk bonds?

- [ ] Issued when the debt ratio is very high
- [ ] Securities rated at less than investment grade
- [ ] They are useless securities
- [ ] Securities that are highly risky but offer high yields

67. A firm must select from among several methods of financing arrangements when meeting its capital requirements. To acquire additional growth capital while attempting to maximize earnings per share, a firm should normally:

- [ ] Attempt to increase both debt and equity in equal proportions, which preserves a stable capital structure and maintains investor confidence
- [ ] Select debt over equity initially, even though increased debt is accompanied by interest costs and a degree of risk
- [ ] Select equity over debt initially, which minimizes risk and avoids interest costs
- [ ] Discontinue dividends and use current cash flow, which avoids the cost and risk of increased debt and the dilution of EPS through increased equity

68. Common shareholders with preemptive rights are entitled to

- [ ] Vote first at annual meetings.
- [ ] Purchase any additional bonds sold by the firm
- [ ] Purchase sufficient shares so as to maintain their ownership percentage.
- [ ] Gain control of the firm in a proxy fight.

69. In what way do investment bankers make money under best efforts offerings?

- [ ] By receiving the difference between the purchasing price and the offering price.
- [ ] By receiving a commission.
- [ ] By receiving a discount of the difference between the purchasing price and the offering price.
- [ ] By purchasing unsold securities for their own account.

Chapter 18 - Interpreting Financial Statements

70. The basic financial statements include a

- [ ] Balance sheet, income statement, statement of retained earnings, and statement of changes in retained earnings
- [ ] Statement of financial position, income statement, statement of retained earnings, and statement of changes in retained earnings
- [ ] Balance sheet, statement of financial position, income statement, and statement of changes in retained earnings
- [ ] Balance sheet, income statement, and statement of cash flows

71. A statement of cash flows is to be presented in general purpose external financial statements by which of the following?

______ Publicly held business enterprises only.

______ All business enterprises and not-for-profit organizations.

______ Privately held business enterprises only.

______ All business enterprises.

72. The primary purpose of the balance sheet is to measure:

______ The fair market value of the firm's assets

______ Assets, liabilities, and cash flows

______ The liquidation value of the firm's assets

______ The firm's financial position at a given date

73. Another name for the balance sheet is the:

______ Statement of cash flows

______ Statement of earnings

______ Statement of financial position

______ Retained earnings statement

74. Which of the following types of accounts are not found on the balance sheet?

______ Revenues

______ Assets

______ Liabilities

______ Owners' equity

75. Which of the following would be classified as a current liability?

______ Accounts payable

______ Land

______ Capital stock

______ Accounts receivable

76. The financial statement that shows the origin and disposition of an enterprise's cash flows is called the:

______ Balance sheet

______ Statement of cash flows

______ Income statement

______ Retained earnings statement

77. Which of the following is a primary use of cash?

______ Borrowing

______ Investment by owners

______ Operating expenses

______ Sale of equipment

Chapter 19 - Accounting Conventions And Recording Financial Data

78. Double-entry system implies:

- ______ Each transaction has a dual effect
- ______ The use of two accounts
- ______ The use of two journals
- ______ The use of a journal and a ledger

79. The idea that a transaction affects either both sides of the equation by the same amount or one side of the equation only, by increasing and decreasing it by identical amounts and thus netting zero:

- ______ The additive concept
- ______ The going concern assumption
- ______ The monetary measurement concept
- ______ Double-entry accounting

80. The basic accounting equation is:

- ______ Assets = liabilities + owners' equity
- ______ Assets + liabilities = owners' equity
- ______ Assets + owners' equity = liabilities
- ______ Liabilities - owners' equity = assets

81. A journal is:

- ______ A flowchart of all transactions
- ______ An accounting procedures manual
- ______ A chart of account
- ______ The initial recording of transactions

82. The ledger is:

- ______ A listing of the titles and numbers of all accounts in the chart of accounts
- ______ A flowchart of all transactions
- ______ The group of accounts which sum up the financial operations of the company
- ______ A journal

83. What function do general ledgers serve in the accounting process?

- ______ Reporting
- ______ Summarizing
- ______ Classifying
- ______ Recording

84. Borrowing money from a bank:

______ Increases assets and decreases liabilities

______ Increases liabilities and decreases assets

______ Decreases assets and decreases liabilities

______ Increases assets and increases liabilities

85. If a company purchased equipment for cash, the accounting equation would show a(n):

______ Increase in assets and decrease in assets

______ Decrease in liabilities and increase in assets

______ Increase in liabilities and increase in assets

______ Decrease in liabilities and decrease in assets

Chapter 20 - Assessing Financial Health And Fitness

86. What ratio is used to measure a firm's liquidity?

______ Debt ratio

______ Asset turnover

______ Current ratio

______ Return on equity

87. What ratio is used to measure a firm's leverage?

______ Debt ratio

______ Current ratio

______ Asset turnover

______ Return on equity

88. What ratio is used to measure a firm's efficiency at using its assets?

______ Current ratio

______ Total asset turnover

______ Return on sales

______ Return on equity

89. What ratio is used to measure the profit earned on each dollar invested in a firm?

______ Current ratio

______ Asset turnover

______ Return on sales

______ Return on total asset

90. What type of ratio is rate of return on net sales?

______ Profitability ratio

______ Activity ratio

- [ ] Liquidity ratio
- [ ] Leverage ratio

91. If a company is profitable and is effectively using leverage, which one of the following ratios is likely to be the largest?
    - [ ] Return on total assets
    - [ ] Return on operating assets
    - [ ] Return on equity (ROE)
    - [ ] Return on total shareholders’ equity

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