December 2016

Multiple Choice (45%)

1. The Raiderland Company produces a number of products, including a Texas Tech flag. The company which began operations at the beginning of the year, uses a standard cost system. The standard costs for one Texas Tech flag are provided below:

Direct Material (0.5 yds @ $2.00 per yard)	$1.00
Direct Labor (1 hr @ $8.50 per hour)	$8.50

The company produced and sold 35,000 flags during 2006 at the following costs:

Direct Materials (18,000 yards)	$ 17,280
Direct Labor (36,000 hours)	$374,400

What is the company's material usage variance for 2006?
   a. $1,000 favorable
   b. $1,000 unfavorable
   c. $500 favorable
   d. $500 unfavorable
   e. None of the above

2. Coffee Café operates a chain of coffee shops in Lubbock. The company pays rent of $24,000 per year for each location. Supplies (napkins, bags, and condiments) are purchased as needed. The managers of each shop are paid a salary of $3,000 per month and all other employees are paid on an hourly basis. Relative to the number of shops, the cost of the rent is which kind of cost?
   a. Fixed cost
   b. Variable cost
   c. Mixed cost
   d. Inadvertent cost
   e. None of the above

3. Parson's Company uses a cost-plus pricing strategy. At the beginning of 2006, Parsons estimated that its total annual overhead costs would be $100,000 and that 50,000 direct labor hours would be worked. Based on these estimates, Parsons computed a predetermined overhead rate that was used to allocate overhead costs throughout the year. At the end of the year, total overhead cost incurred was $120,000 and 60,000 direct labor hours were worked. Based on this information alone,
   a. Products were priced accurately for 2006.
   b. Products were overpriced for 2006.
   c. Products were underpriced for 2006.
   d. Products were overcosted for 2006.
   e. There is not enough information available to determine.

4. The Dalton Corporation began business on January 1, 2006. The following transactions took place during the year (Assume all transactions involve cash):
   1.) Acquired $5,000 of capital from the owners.

2.) Purchased $4,000 of direct raw materials.
3.) Used $3,500 of direct raw materials.
4.) Paid production workers $2,500.
5.) Paid $1,500 for manufacturing overhead. (Applied and actual overhead are the same.)
6.) Started and completed 2,000 units of WIP (work in progress) inventory
7.) Sold 1,500 units for $8 each.
8.) Paid $2,500 for selling and administrative expenses.

The amount of raw materials inventory reported on the balance sheet at December 31, 2006 would be:

a. $0
b. $1,875
c. $3,500
d. $4,000
e. None of the above

5. Cole's department store is divided into three main divisions – clothing; shoes; housewares. The clothing department occupies 5,000 square feet of the entire store, while the shoes department occupies 1,500 square feet, and the housewares department occupies 3,500 square feet. For 2006, the utilities totaled $5,000. How much of the utilities cost should be allocated to the housewares's department?
   a. $1,667
   b. $750
   c. $2,500
   d. $1,750
   e. None of the above

6. Lighthouse Sights provides guided tours. The company charges $40 per customer. The variable costs are $5 per customer and fixed costs are $5,000 annually. If the company has 500 customers per year, what is the company's operating leverage?
   a. 1.4
   b. 3.5
   c. 8.0
   d. 1.3
   e. None of the above

7. Spacely Sprockets' sales budget shows the following expected total sales:

Month	Total Sales
January	$30,000
February	$40,000
March	$35,000
April	$30,000

The company expects 80% of its sales to be on account (credit sales). Credit sales are collected as follows: 30% in the month of sale and 70% in the month following the sale. What is the budgeted accounts receivable balance at the end of the first quarter?

a. $19,600
b. $24,500
c. $16,800
d. $22,800
e. None of the above

8. Ortegren Company has a normal costing system and applies overhead based on direct labor cost. The company estimated that is would incur $400,000 of overhead and 100,000 labor hours for 2006. The company made 100,000 units and sold 80,000 units during 2006. The company incurred the following costs to produce the units: $500,000 raw material; $350,000 production labor; $410,000 actual overhead. The production workers actually worked 95,000 hours. At the end of the year, the company adjusts for any over or underapplied overhead. What was the company's cost of goods sold for 2006 after all adjustments were made?

   a. $1,014,000
   b. $984,000
   c. $998,000
   d. $1,004,000
   e. None of the above

9. Geerts Industries' sales budget shows the following expected total sales for the third quarter of 2007:

Month	Total Sales
July	$50,000
August	$55,000
September	$60,500

   The company expects 75% of its sales to be credit sales. Credit sales are expected to be collected as follows: 20% in the month of sales, 75% in the month following the sale with the remainder being uncollectible and written off in the month following the sale. What is the budgeted amount of total cash collections for August?

   a. $50,125
   b. $36,375
   c. $52,000
   d. $22,000
   e. None of the above

10. During its first year of operations, Overton Company paid $20,000 for direct material and $50,000 for production workers' wages. Lease payment and utilities on the production facility amounted to $12,000. General, selling and administrative expenses amounted to $6,000. The company made 20,000 units and sold 18,000 units for $6.50 each. What was the amount of the company's net income for the first year?

a. $37,200
b. $43,200
c. $37,800
d. $42,000
e. None of the above

11. Buchheit's Boat manufactures custom boats and began business on January 1, 2006. During 2006, the company began work on three boats. The following is the job order cost sheet data for all three boats:

	Boat #101	Boat #202	Boat #303
Direct Materials	$6,000	$7,500	$6,500
Direct Labor	$4,500	$5,000	$5,500
Labor Hours	450	500	550

The company applies overhead based on direct labor hours. The company calculated a predetermined overhead rate of $5. At the end of 2006, it was determined that actual overhead was $8,000.

During 2006, the company completed Boat #101 and Boat #303. Boat #101 was sold for $18,000 on December 1, 2006. What was the balance in finished goods inventory on 12/31/06? (round to the nearest dollar)

a. $15,000
b. $14,750
c. $14,933
d. $14,667
e. None of the above

12. If you are looking at a company's profitability, which of the following ratios would you use?
a. Return on Investment
b. Margin
c. Turnover
d. Return on Equity
e. All of the above

13. Best Thing, Inc. sells a product at $60 per unit that has unit variable cost of $40. The company's breakeven point is $120,000 in total sales. How much profit will the company make if it sells 5,000 units?
a. <$20,000>
b. $60,000
c. $100,000
d. $120,000
e. None of the above

14. The Magnus Company incurs production cost of $5 per unit for direct material and $12 per unit for direct labor. The company pays rent of $10,000 per year for its production facility. If

the company produces 5,000 units and sells 4,200 units during the year, what will be the company's cost of goods sold?

   a. $89,700
   b. $81,400
   c. $95,000
   d. $101,000
   e. None of the above

15. Alcott Company has a contribution margin of 25%. The company desires to earn a profit of $50,000. The company has fixed costs of $120,000. What sales revenue would the company have to have in order to earn the desired profit?
    a. $680,000
    b. $480,000
    c. $200,000
    d. $100,000
    e. None of the above

16. The Masai Company began business on January 1, 2005. During the year, the company paid $120,000 for materials used in the production process and $300,000 in wages for the production workers. The rent and utilities of the manufacturing plant totaled $80,000. Selling costs amounted to $150,000. The company made 250,000 units and sold 210,000 units for $5 each. What was the company's production cost per unit?
    a. $5.00
    b. $2.60
    c. $2.38
    d. $2.00
    e. None of the above

17. The following income statement is provided:

Sales revenue (2,000 * $5)	$10,000
Variable Cost of goods sold (2,000 * $1.25)	(2,500)
Fixed Cost of goods sold	(4,000)
Gross Margin	$ 3,500
Depreciation	(1,000)
Supplies (2,000 * $0.50)	(1,000)
Net Income	$ 1,500

    If sales increase to 2,500 units, what will be the company's contribution margin?
    a. $6,500
    b. $9,375
    c. $8,125
    d. $7,125
    e. None of the above

18. The Coldwall Company provided the following cost information for 2006:

Wages paid to production workers	$25,000
Wages paid to factory maintenance	$10,000
Raw materials used in production	$50,000
Indirect materials	$15,000
Factory utilities	$ 8,000
Rent on the production facility	$12,000
Sales commissions	$40,000

What is the total amount of the company's manufacturing overhead for 2006?
   a. $120,000
   b. $ 90,000
   c. $ 45,000
   d. $ 20,000
   e. None of the above

19. Dan's Delivery is considering purchasing a new van. The cost of the van is $42,340. The van has a 4 year useful life and a $5,000 salvage value. The van is depreciated using the straight-line depreciation method. Dan's requires a minimum rate of return of 8% on all new investments. The van is expected to increase sales by $15,000 and also increase expenses by $2,500 annually. The sales and expenses are cash. Should Dan purchase the new van? Ignore taxes.
   a. Yes, because the actual return is greater than the desired.
   b. No, because the actual return is greater than the desired.
   c. Yes, because the actual return is less than the desired.
   d. No, because the actual return is less than the desired.
   e. None of the above

20. AbCo Inc. produces a product that is sold for $20 each. The cost to produce each unit is $12 and there is $10,000 in total fixed cost. The company would like to have a $30,000 profit. What amount of total sales does the company need in order to earn the desired profit?
   a. $25,000
   b. $75,000
   c. $100,000
   d. $125,000
   e. None of the above

21. ListenUp Audio Systems sells and installs car stereo systems. Rosemary Patterson needs to prepare a purchases budget for the last quarter of 2007. The company's sales budget for the fourth quarter is provided below:

	October	November	December
Budgeted Sales	$90,000	$98,000	$104,000

Rosemary expects the company's cost of goods sold to be 80% of sales. The ending inventory balance each month should be 20% of the next month's cost of goods sold. Based on this information, how much inventory does Rosemary need to purchase for November?

a. $78,400
b. $98,040
c. $80,640
d. $79,360
e. None of the above

22. At its $250 selling price, Luca Company has budgeted sales of $100,000 and the following budgeted costs: variable manufacturing costs of $40,000, fixed manufacturing costs of $10,000, variable selling and administrative costs of $20,000 and fixed selling and administrative costs of $10,000. What is the company's margin of safety in number of units?
    a. 400
    b. 200
    c. 100
    d. 0
    e. None of the above

23. Talladega Company manufactures an electric clock radio. Talladega outsources an electrical switch that is a component in its radio. The switches are purchased for $8 each. The company is considering making the switches internally and has conducted a study to determine the costs involved. The costs below are projected annual production costs:

Unit-level material cost	$3
Unit-level labor cost	$1
Unit-level overhead cost	$2
Batch-level cost (5,000 units per batch)	$5,000
Allocated Facility-level costs	$20,000

The company expects to produce 15,000 radios during the upcoming year. There is one switch in each radio. Assume that the company will still be operating within its relevant range. If Talladega decides to make the switches rather than purchase them, costs will

    a. Costs will increase by $25,000
    b. Costs will decrease by $25,000
    c. Costs will increase by $15,000
    d. Costs will decrease by $15,000
    e. None of the above

24. Riley Company produces and sells gizmos. The company incurred the following production costs for 2006:

Direct Materials	$15 per unit

Direct Labor	$20 per unit
Variable Manufacturing Overhead	$ 5 per unit
Fixed Manufacturing Overhead	$120,000

The company produced 10,000 units and sold 8,000 during 2006. What was the ending inventory balance at 12/31/06 using the variable costing method?

a. $104,000
b. $416,000
c. $320,000
d. $ 80,000
e. None of the above

25. Harvey's Home Store has three departments: Tools, Plumbing and Hardware. The store incurred $30,000 of worker's compensation insurance for 2006. The departments identified the following cost drivers for 2006:

	Tools	Plumbing	Hardware
Labor dollars	$535,000	$775,000	$240,000
Square footage	3,000	8,000	1,000
# of sales transactions	300,000	900,000	90,0000

Using the most appropriate cost driver, how much worker's comp insurance should be allocated to the Plumbing Department? (round to the nearest dollar)

a. $15,000
b. $10,000
c. $20,930
d. $10,355
e. None of the above

Use the following to answer the next 5 (26 – 30) questions.
The following balance sheet information is provided for West End Company:

	2006	2005
ASSETS		
Cash	$ 5,000	$ 4,000
Accounts Receivable	$10,000	$12,000
Inventory	$12,000	$ 8,000
Plant & Equip. (net of depr.)	$20,000	$22,000
Total Assets	$47,000	$46,000
LIABILITIES & STOCKHOLDER'S EQUITY		
Accounts Payable	$ 8,000	$ 6,000
Salaries Payable	$ 5,000	$ 6,000
Bonds Payable (due 2025)	$20,000	$21,000
Capital Stock ($5 par)	$10,000	$10,000

Retained Earnings	$ 4,000	$ 3,000
Total Liab. & Stockholder's Equity	$47,000	$46,000

26. Using horizontal analysis, what is the increase or decrease in accounts payable? (round to the nearest whole percentage)
    a. Decreased by 25%
    b. Increased by 25%
    c. Decreased by 33%
    d. Increased by 33%
    e. None of the above

27. Assuming that net credit sales totaled $66,000, what is the average number of days it took to collect the accounts receivable in 2006? (round to the nearest whole day) (DSO)
    a. 61 days
    b. 55 days
    c. 66 days
    d. 6 days
    e. None of the above

28. Assuming the company had net income of $7,000 in 2006, what would be the company's return on equity?
    a. 56% - 60%
    b. 50% - 55%
    c. 70% - 75%
    d. 15% - 20%
    e. None of the above

29. What was West End's current ratio for 2006?
    a. 1.15 : 1
    b. 1.42 : 1
    c. 2.08 : 1
    d. 0.82 : 1
    e. None of the above

30. Assuming the company had net income of $7,000 in 2006, what was the company's earnings per share?
    a. $0.70
    b. $0.50
    c. $2.50
    d. $3.50
    e. None of the above

CASES

Case I (12%)

Delicious Bite Company is a fast food restaurant chain. You are given the following revenue and cost information:

Building and equipement	$490,000
Annual revenue	$520,000
Annual cash operating costs	$380,000

The building and equipment have a useful life of 20 years. The straight-line method for depreciation is used. The income tax is 40 percent.

Required:

1. What is the payback period?
2. What is the accounting rate of return?

Case 2 (13%)

Investors require a 20% per year return on the stock of G Company. Yesterday, G Company paid a $2 dividend (dividends are paid annually). The dividend is expected to grow 30 percent per year for the next 2 years and at 8 percent per year thereafter.

Present Value of $1: $PVIF_{i,n}$										
Period	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%
1	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813	.7576
2	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739
3	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348

Required:
At what price should the stock sell?

PROBLEM (30%)

The following information is at your disposal in order to prepare the cash budget for Sally Enterprise:

Sally Enterprise Balance Sheet on 31/12/N –1 (All amounts are in $)			
Assets		**Liabilities**	
Fixed assets	*350,000*	Capital	400,000
Depreciation of fixed assets	*(140,000)*	Result of the period – profits	100,000
Net fixed assets	210,000	Loans from financial Institutions	20,000
Inventory	282,000	Suppliers	114,000
Clients	120,000	Dues to Employees	15,000

Other receivables	17,000	Social accounts payable	42,300
Banks	102,000	Taxes payable	3,000
Cash	6,000	Other accounts payable	30,700
		Bank – Overdrafts	12,000
	737,000		737,000

Sales and purchases

	Actual		Projected		
	November	December	January	February	March
Sales	250,000	300,000	370,000	230,000	180,000
Purchases	100,000	120,000	190,000	110,000	90,000

Sales are collected at 60% cash when generated and the remaining 40% during the month following the sale.

The purchases are settled at 30% during the month of purchase, 40% during the month following the purchase, and the remaining 30% during the month after that.

Settling and collecting other accounts:

	January	February	March
Other accounts payable	4,900	9,700	10,700
Other accounts receivable		17,000	

External services

External services are settled as soon as they occur. In the first quarter, they are estimated as follows:

January	February	March
85,000	79,000	92,000

Salaries and social expenses

Monthly salaries at the enterprise amounted to $60,000. It is subject to deduction of social security at 2%. The enterprise settles subscriptions at 21.5% in addition to what it deducts from salaries. All subscriptions are settled quarterly during the first 20 days of the month which follows the end of the quarter (January is for October, November and December's subscriptions, April is for January, February, and Marches subscriptions, and so on)

The salaries are subject to an income tax on salaries of $1,000 payable on the same date of the payment of the social security subscription.

In addition to that, the enterprise pays 5% to sales representatives, knowing that these representatives are not yet registered in the social security, thus their salaries are not subject to any social security subscription or income tax deduction. Commissions for the sales of each month are settled during the following month without enrolling the representatives' names in the payroll.

Loans

The enterprise will settle the loan balance as noted in the balance sheet and the loan provider will offer an additional loan of $150,000 in cash on the first of March

Increasing the Capital

On the first of March, the enterprise will double the capital to reach $800,000 to finance an expansion project. $100,000 is to be transferred from the result of the period, and the rest by depositing the amount in the enterprise's current account at the bank till to be used.

Investment budget

In February, the enterprise intends to sell in cash a fully depreciated fixed asset for a profit $5,000. During the last days of March, it intends to acquire a property which will cost $1,000,000. Half the price of the property will be paid immediately at the purchase date.

Required:

1. Prepare the receipt (cash collections) budget for the first quarter (N).
2. Prepare the disbursement budget for the first quarter (N).
3. Prepare the cash budget for the first quarter (N).