Lebanese Association of Certified Public Accountants

Managerial Accounting

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Head Of Exams Committee

Judge John AZZI

I- Multiple Choice Questions (40 points)

Use the following information to answer questions 1 to 4.
Blake Company's net income for 20X2 was $3 million. Of this amount, 40% will be used to purchase treasury stock. Currently, there are 1 million shares outstanding and the market price per share is $9.

1. The number of stocks the company can buy back through a tender offer of 12$ per share is:
  A. 50,000
  B. 100,000
  C. 80,000
  D. 70,000

2. The current earning per share is:
  A. $2
  B. $3
  C. $4
  D. $5

3. The current Price-Earnings (P/E) ratio is:
  A. 2 times
  B. 3 times
  C. 4 times
  D. 5 times

4. After the treasury stock acquisition, the earnings per share would be:
  A. $4.444
  B. $3.333
  C. $5.555
  D. $6.666

5. The following information pertains to the budget of Quality Products Inc., for the next year:

Sales	$50,000,000
Variable costs	45,000,000
Fixed costs	3,000,000

If the company has a 10% increase in sales volume, the expected net income would be:
  A. $1,800,000
  B. $2,200,000
  C. $2,500,000
  D. $7,000,000

Use the following data to answer numbers 6, 7, and 8.
Daniel Corporation's balance sheet on December 31, N, shows the following:

Current Assets	
Cash	$ 4,000
Marketable Securities	$8,000
Accounts Receivable	$100,000
Inventories	$120,000
Prepaid Expenses	$1,000
Total Current Assets	**$233,000**

Current Liabilities	
Notes Payable	$ 5,000
Accounts Payable	$150,000
Accrued Expenses	$20,000
Income Taxes Payable	$1,000
Total Current Liabilities	**$176,000**
Long-Term Liabilities	$340,000

6. The working capital for Daniel Corporation is:
A. $409,000
B. $107,000
C. $57,000
D. $573,000

7. The current ratio for Daniel Corporation is:
A. 1.12
B. 1.23
C. 1.32
D. 1.42

8. The quick ratio for Daniel Corporation is:
A. 1.34
B. 1.04
C. 0.64
D. 0.84

9. Choose an action that will increase financial risk.
A. Reducing sales commissions and increasing salaries paid to the sales staff.
B. Not updating anti-virus software.
C. Borrowing money and using the cash to pay a large dividend.
D. Eliminating dividends to conserve cash.

10. Al-Wassim corporation has $90 million in current assets. If the corporation has a current ratio of 1.2 and a quick ratio of 0.9, what is net working capital?
A. $10 million.
B. $15 million.
C. $81 million.

D. $108 million.

11. If company X has a higher degree of operating leverage than company Y, then which of the following statements is true?
    A. Company X has higher variable expenses.
    B. Company X is less risky.
    C. Company X is more profitable.
    D. Company X's profits are more sensitive to percentage changes in sales.

12. Which of the following costs is often important in decision making, but is omitted from conventional accounting records?
    A. Fixed cost.
    B. Opportunity cost.
    C. Sunk cost.
    D. Indirect cost.

13. A stock began the month with a stock price of $50 per share, paid a dividend of $2 per share during the month, and ended the month with a price of $52 per share. What total return did investors earn on the stock during this month?
    A. 8.00 %.
    B. 4.00 %.
    C. 7.69 %.
    D. 0.00 %.

14. All of the following would appear on a projected schedule of cost of goods manufactured except for:
    A. beginning finished goods inventory.
    B. ending work-in-process inventory.
    C. applied manufacturing overhead.
    D. the cost of raw materials used.

15. Which one of the following capital budgeting techniques would always result in the same investment decision for a project as the net present value method?
    A. Discounted Payback.
    B. Internal Rate of Return.
    C. Accounting Rate of Return.
    D. Profitability Index.

16. Using the CAPM formula, calculate the required rate of return on a stock, assuming:
    $Rf = 7\%$ (the risk-free rate on a US Treasury security)
    $\beta = 0.75$ (the beta coefficient for the company)
    $Km = 13\%$ (the estimated return on the market portfolio)
    A. 9%
    B. 11.5%
    C. 9.5%
    D. 13%

17. If the U.S. dollar depreciated against the British pound, other things being equal, we would expect that

A. the British demand for U.S. products would decrease.
B. the British demand for U.S. products would increase.
C. U.S. demand for British products would increase.
D. trade between the U.S. and Britain would decrease.

18. Which one of the following is <u>NOT</u> explicitly considered in the standard calculation of Economic Order Quantity (EOQ)?

A. Fixed ordering costs.
B. Quantity discounts.
C. Carrying costs.
D. Level of sales.

19. To appraise a proposed project, the following measures have been calculated:

- The payback period is 4 years.
- The internal rate of return is 12%.
- The return on capital employed is 16%.

Which of the following statements is correct?

A. The payback is less than 5 years so the project should go ahead.
B. The IRR is lower than the return on capital employed so the project should not go ahead.
C. The IRR is positive so the project should go ahead.
D. The IRR is greater than the cost of capital so the project should go ahead.

20. Sally company is considering an investment of $800,000 in new machinery. The machinery is expected to yield incremental profits over the next five years as follows:

Year	*Profit*
1	$350,000
2	$450,000
3	$680,000
4	$330,000
5	$250,000

Thereafter, no incremental profits are expected and the machinery will be sold. It is company policy to depreciate machinery on a straight-line basis over the life of the asset. The machinery is expected to have a value of $100,000 at the end of year 5.

What is the payback period of the investment in this machinery?

A. 1.9 years
B. 1.5 years
C. 1.3 years
D. 0.9 year

II. Exercises (60 points)

Exercise 1 (20 points)

The following information is given for the Violette Company:

Fixed costs	$60,000 per period
Variable cost	$10/unit
Selling Price	$16/unit

Required: (show your calculations on your answer sheet)

a. Calculate the margin of safety at the 24,000-unit level.
b. Find the net income when sales are $240,000.
c. Compute the sales in units required to produce a net income of $20,000.
d. Compute the sales in units required to produce a net income of 10% of sales.
e. Find the break-even in units if variable costs are increased by $2 per unit and if total fixed costs are decreased by $10,000.

Exercise 2 (24 points)

Delight Corporation's financial statements appear below:

Delight Corporation Balance Sheet December 31, N		
Assets:		
Current Assets		
Cash	$200,000	
Marketable Securities	400,000	
Inventory	600,000	
Total Current Assets		$1,200,000
Noncurrent Assets		
Fixed Assets		1,000,000
Total Assets		$2,200,000
Liabilities and Stockholders' Equity:		
Current liabilities	$400,000	
Long-Term liabilities	200,000	
Total liabilities		$ 600,000
Stockholders' Equity		
Common stock, $2 par value, 100,000 shares	$200,000	
Preferred Stock	100,000	
Premium on Common Stock	1,000,000	
Retained Earnings	300,000	
Total Stockholders' Equity		1,600,000
Total Liabilities and Stockholders' Equity		$2,200,000

Delight Corporation Income Statement For the year Ended December 31, N	
Net Sales	$20,000,000
Cost of Goods Sold	$ 12,000,000
Gross Profit	$ 8,000,000
Operating Expenses	$ 2,000,000
Income before Taxes	$ 6,000,000
Income Taxes (50% rate)	$3,000,000
Net Income	$ 3,000,000

Additional information available is a market price of $300 per share of common stock and total dividends of $1,200,000 for common shareholders for the year 'N', and $500,000 of inventory as of December 31, 'N – 1'.

Required:

Compute the following ratios:

(a) Inventory turnover
(b) Average age of inventory (Days sales in Inventory)
(c) Debt-equity ratio
(d) Earnings per share (EPS)
(e) Common Dividends per share (DPS)
(f) Common Dividend payout ratio (DPR)

<u>Exercise 3</u> (16 points)

Lana Company is considering a project that would have an eight-year life and require a $4,800,000 investment in equipment. At the end of the eight years, the project would terminate and the equipment would have no salvage value. The project would provide net operating income each year as follows:

Sales	$6,000,000
Variable expenses	$3,600,000
Contribution margin	$2,400,000
Fixed expenses:	
Advertising, salaries, and other fixed out-of-pocket costs	$1,400,000
Depreciation	$600,000
Total fixed expenses	$2,000,000
Net operating income	$ 400,000

Present value of an annuity of $1 in arrears.

Period	4 %	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
8	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487

The company's discount rate is 12%

Required:

a. Compute the annual net cash inflow from the project.
b. Compute the project's net present value. Is the project acceptable?
c. Find the project's internal rate of return to the nearest whole percent.

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