

## SAMPLE QUESTIONS - PART 2

### Section A. Budget Preparation

1. Trumbull Company has budgeted sales on account of \$120,000 for July, \$210,000 for August, and \$195,000 for September. Collection experience indicates that 30% is collected the same month, 60% of the budgeted sales will be collected the month after the sale, 8% will be collected the second month, and 2% will be uncollectible. The cash from accounts receivable that should be budgeted for receipt in September would be
  - a. \$57,500.
  - b. \$177,600.
  - c. \$194,180.
  - d. \$198,600.
  
2. Which of the following **best** describes how a master budget is used?
  - a. It compiles the operational budgets of all the separate operational and financial groups in the organization.
  - b. It is the projected schedule of costs and revenues against which each department is measured.
  - c. It is followed exactly for up to a year, but it may be adjusted after one year.
  - d. It deals only with those categories that will appear on future financial statements.
  
3. The Atlantis Company is committed to improving communication and promoting coordination throughout the company. If this commitment is reflected in Atlantis' annual budget, which department is **most** likely to develop the sales forecast?
  - a. The president.
  - b. The marketing department.
  - c. The manufacturing department.
  - d. The local sales managers.
  
4. Which of the following statements **best** describes why many well-run corporations use annual budgets?
  - a. Budgets are required under US generally accepted accounting principles (GAAP).
  - b. The budget process is necessary to create budgeted financial statements.
  - c. The budget encourages all units in the corporation to work together.
  - d. The budget forces all salespeople to inflate their forecasts.

5. Kaizen budgeting primarily refers to a process that
- a. is used when an activity-based costing system is implemented.
  - b. requires the use of flexible budgeting.
  - c. is used only by Japanese companies.
  - d. budgets for efficiency improvements.
6. Werner Company buys raw materials from several suppliers, and makes payments according to the following schedule.

In the month of purchase	25%
In the month after purchase	60%
In the second month after purchase	15%

In preparing the master budget for the fourth quarter of the year, Werner assumed that total purchases will be sufficient to have enough inventory on hand to fill one month's worth of production, as has been the policy for the past several years. The production is forecast as follows, in \$000:

Sep	Oct	Nov	Dec	Jan
170	180	190	220	230

What will be the accounts payable balance as of December 31?

- a. \$260,500.
- b. \$230,000
- c. \$220,000.
- d. \$205,500.

## Section B. Cost Management

7. Coach Corporation is considering which capacity measure is appropriate to use as the denominator level of activity when applying fixed factory overhead to units produced. Assume that Coach selects direct labor hours as the cost driver and the following additional data are available from the prior year.

	<u>Hours</u>
Standard direct labor hours for normal capacity	200,000
Standard direct labor hours allowed for units produced in the prior year	210,000
Standard direct labor hours for the master budget capacity	190,000

Which of the following capacity measures for the denominator-level of activity would have resulted in an unfavorable volume variance for the prior year?

- a. Both normal capacity and master budget capacity.
  - b. Neither normal capacity nor master budget capacity.
  - c. Normal capacity only.
  - d. Master budget capacity only.
8. Assuming that there is a constant contribution margin per unit, which of the following **best** describes why period-to-period operating income may change?
- a. Unit sales level increase or decrease.
  - b. Selling prices increases may exceed variable cost increases.
  - c. Fixed manufacturing costs and fixed marketing costs are included in costs of good sold.
  - d. Finished goods inventory levels may change.

9. Consider the following information for Richardson Company for the prior year.
- The company produced 1,000 units and sold 900 units, both as budgeted.
  - There were no beginning or ending work-in-process inventories and no beginning finished goods inventory.
  - Budgeted and actual fixed costs were equal; all variable manufacturing costs are affected by production volume only; and all variable selling costs are affected by sales volume only.
  - Budgeted per unit revenues and costs were as follows.

	<u>Per Unit</u>
Sales price	\$90
Direct materials	30
Direct labor	20
Other variable manufacturing costs	15
Fixed selling costs	5
Variable selling costs	12
Fixed selling costs (\$3,600 total)	4
Fixed administrative costs (\$1,800 total)	2

The contribution margin earned by Richardson for the prior year was

- a. \$7,200.
  - b. \$8,000.
  - c. \$11,700.
  - d. \$13,000.
10. Juniper Manufacturing uses a weighted-average process costing system at its satellite plant. Goods pass from the Major Assembly Department to the Finishing Department to finished goods inventory. The goods are inspected twice in the Finishing Department. The first inspection occurs when the goods are 25% complete, and the second inspection occurs at the end of production. The following data pertain to the Finishing Department for the month of July.

	<u>Units</u>
Good units started and completed during July	65,000
Normal spoilage - first inspection	2,000
Abnormal spoilage - second inspection	200
Ending work-in-process inventory, 60% complete	15,000

There was no beginning work-in-process inventory in July. Juniper recognizes spoiled units to make the cost of all spoilage visible in their management reporting. Equivalent units for assigning costs for July would total

- a. 74,000.
- b. 74,550.
- c. 74,700.
- d. 82,150.

11. Pane Company uses a job costing system and applies overhead to products on the basis of direct labor cost. Job No. 75, the only job in process on January 1, had the following costs assigned as of that date: direct materials, \$40,000; direct labor, \$80,000; and factory overhead, \$112,000. The following selected costs were incurred during the year.

Traceable to jobs:

Direct materials	\$178,000	
Direct labor	<u>350,000</u>	\$528,000

Not traceable to jobs:

Factory materials and supplies	47,000	
Indirect labor	236,000	
Plant maintenance	74,000	
Depreciation on factory equipment	29,000	
Other factory costs	<u>77,000</u>	463,000

Pane's profit plan for the year included budgeted direct labor of \$320,000 and factory overhead of \$448,000. There was no work-in-process on December 31. Pane's overhead for the year was

- \$18,000 overapplied.
- \$27,000 overapplied.
- \$18,000 underapplied.
- \$27,000 underapplied.

12. When compared with normal spoilage, abnormal spoilage is

- more frequently caused by factors that are inherent in the manufacturing process.
- given the same accounting treatment as normal spoilage.
- not included as part of the cost of goods produced.
- not typically influenced by the "tightness" of production standards.

13. Which of the following **best** describes the advantage of the reciprocal method of allocating support departments to operating departments?
- a. The reciprocal method has many steps, as some of the costs of one support department are allocated to other support departments, which then allocated some of it back to the first.
  - b. The reciprocal method explicitly recognizes the value of services support departments give to each other.
  - c. Unlike the reciprocal method, the step method allocates costs in one direction only.
  - d. There must be more than one support department for the reciprocal method to be used.
14. Tucariz Company processes Duo into two joints products, Big and Mini. Duo is purchased in 1,000-gallon drums for \$2,000. Processing costs are \$3,000 to process the 1,000 gallons of Duo into 800 gallons of Big and 200 gallons of Mini. The selling price is \$9 per gallon for Big and \$4 per gallon for Mini. If the sales value at split-off point is used to allocate joint costs to the final products, the total cost assigned to produce Big is
- a. \$500.
  - b. \$1,000.
  - c. \$4,000.
  - d. \$4,500.

### Section C. Information Management

15. Which of the following is the **best** example of an advantage of using the data management approach to store and organize data?
- a. Data redundancy ensures backup in case of emergencies.
  - b. Database interrogation allows the use to display information or produce reports.
  - c. Each file is organized in the way the user found most effective.
  - d. The developer must understand which resources are affected by each event and which agents participate in those events.
16. Which of the following data processing cycles is **not** a traditional, financial report based, transaction cycle?
- a. The revenue cycle.
  - b. The expenditure cycle.
  - c. The payroll or human resources cycle.
  - d. The marketing cycle.

17. An online real-time system differs from a batch processing system in a number of ways. Which one of the following statements in regard to these two different types of processing systems is **not** correct?
- A batch processing system is more useful for decision-making purposes than an online real-time processing system.
  - Online real-time processing updates the master file as each transaction occurs whereas batch processing updates the master file periodically during scheduled computer runs.
  - Batch processing requires the transaction file to be in sequential order, whereas online real-time processing does not.
  - A traditional payroll processing system is an example of batch processing, and an airline reservation system is an example of online real-time processing.
18. Which of the following is the biggest disadvantages of e-commerce?
- The customers seeking complicated products and services often need the personal assistance of a salesperson.
  - The required technology, including internet connections, is not available to many potential customers.
  - Large internet sites often offer customers far more choices than they can easily process.
  - The payment for the purchases online often involves electronic funds transfers, which are less than fully secure.
19. Which of the following does **not** pair an important step in the information systems development cycle with the output of that step?
- Systems Analysis – Functional Requirements.
  - Systems Implementation – Operational System.
  - Systems Specification – Improved System.
  - Systems Design – System Specification.
20. Garland Company uses a standard cost system. The standard for each finished unit of product allows for 3 pounds of plastic at \$0.72 per pound. During December, Garland bought 4,500 pounds of plastic at \$0.75 per pound, and used 4,100 pounds in the production of 1,300 finished units of product. What is the material efficiency variance for the month of December?
- \$144 unfavorable.
  - \$150 unfavorable.
  - \$432 unfavorable.
  - \$450 unfavorable.

21. The JoyT Company manufactures Maxi Dolls for sale in toy stores. In planning for this year, JoyT estimated variable factory overhead of \$550,000 and fixed factory overhead of \$410,000. JoyT uses a standard costing system, and factory overhead is allocated to units produced on the basis of standard direct labor hours. The denominator level of activity budgeted for this year was 10,000 direct labor hours, and JoyT used 10,300 actual direct labor hours.

Based on the output accomplished during the year, 10,300 standard direct labor hours should have been used. Actual variable factory overhead was \$596,000, and actual fixed factory overhead was \$425,000 for the year. Based on this information, the volume variance for JoyT for this year is

- a. \$12,300 favorable.
  - b. \$12,750 favorable.
  - c. \$16,500 favorable.
  - d. \$17,880 favorable.
22. Which one of the following **best** describes a nonfinancial performance measure contained in most balanced scorecards?
- a. Customer response time.
  - b. Materials purchase variance.
  - c. Overtime used.
  - d. Increase in sales.
23. Which one of the following costs is considered an external failure cost?
- a. Repairing the machine used in manufacturing.
  - b. Customer service staff responding to customer complaints.
  - c. Product testing.
  - d. Designing products that are easy to manufacture.
24. To meet Zylon Corporation's overall objectives, the Frame Division has just initiated a program to increase sales by improving the manufacturing quality of its products. Which one of the following is the **least** appropriate means to improve quality?
- a. Study customers' perception of the Frame Division's products.
  - b. Develop complex production methods for most products.
  - c. Develop detailed specifications which the products have to meet.
  - d. Ensure that vendors ship the right products at the right times.

25. Which one of the following responsibility centers is **most** likely to be the responsibility of a sales manager?
- a. Cost center.
  - b. Revenue center.
  - c. Profit center.
  - d. Investment center.
26. Which one of the following measures of corporate performance does **not** consider the value of assets used to generate the income that is being measured?
- a. Return on investment.
  - b. Residual income.
  - c. Economic value added.
  - d. Return on sales.

### **Section E. External Financial Reporting**

27. Which of the following is **not** one of the primary qualities in published financial statements?
- a. relevance.
  - b. reliability.
  - c. understandability.
  - d. all-inclusiveness.
28. Which of the following **best** describes the role of the Securities and Exchange Commission (SEC) in regard to financial accounting for public companies in the U.S.?
- a. The SEC makes accounting rules and regulations for those companies which have to file with the SEC.
  - b. The SEC decides which firms are assigned to audit companies required to file with the SEC.
  - c. The SEC assists the Internal Revenue Service in developing rules for corporate income taxes.
  - d. The SEC oversees the Financial Accounting Standards Board (FASB) as the FASB develops new accounting standards.

29. Public companies are required to have their financial statements audited by public accounting firms. Which of the following **best** describes why this attestation is required?
- Many managers do not understand the statements without an auditor's assistance.
  - Investors and potential investors want outside confirmation of the reliability of the financial statements.
  - Corporate financial managers do not have the training or expertise to prepare financial statements.
  - Public accounting firms have the best ability to compare the performance of businesses within the industry in which the public accounting firm specializes.
30. A Statement of Financial Position prepared in accordance with U.S. GAAP allows investors to assess all of the following **except** the
- efficiency with which enterprise assets are utilized.
  - liquidity and financial flexibility of the enterprise.
  - capital structure of the enterprise.
  - prospects for growth of the enterprise.
31. An item of inventory purchased for \$25 had been written down at the end of last year to a current replacement cost of \$17. The item is currently selling for \$34, less than its normal selling price of \$50. This change will affect the financial statements in which one of the following ways?
- The income for last year is reduced.
  - The cost of sales for this year will be increased.
  - The income for this year will be increased.
  - The income for this year will be decreased.
32. Pearl Corporation acquired manufacturing machinery on January 1 for \$9,000. During the year, the machine produced 1,000 units, of which 600 were sold. There was no work-in-process inventory at the beginning or at the end of the year. Installation charges of \$300 and delivery charges of \$200 were also incurred. The machine is expected to have a useful life of five years with an estimated salvage value of \$1,500. Pearl uses the straight-line depreciation method. The book value of the machinery on Pearl's books at December 31 is
- \$9,000.
  - \$9,500.
  - \$7,200.
  - \$7,600.

33. Which one of the following is **most** likely to require a company to increase the liability in its Accrued Postretirement Benefit Cost?
- An increase in the cost of medical services provided to current retirees.
  - An increase in the return on benefit plan assets.
  - A decrease in the interest rate used to calculate the service cost earned by current employees.
  - A decrease in the medical coverage provided to future retirees.
34. Which one of the following items will increase net cash flow from operating activities, when using the indirect method of converting net income to net cash flow?
- Depreciation.
  - Increase in accounts receivable
  - Purchase of fixed assets
  - Dividends paid.
35. Which one of the following conditions requires the capitalization of a lease by the lessee?
- Lease transfers ownership of the property to the lessee at the end of the lease term.
  - Lease contains an option for the lessee to purchase the property at fair market value at the end of the lease term.
  - Lease term is equal, or less than, 50% or more of the estimated economic life of the leased property.
  - Present value of the minimum lease payments is equal to, or less than, 75% of the fair value of the leased property.
36. Near the end of the fiscal year, Robb Company was notified of a suit by Dawn Company for patent infringement. Robb's legal counsel believes it is likely Dawn will prevail, and the amount of damages will be in the range of \$300,000 to \$350,000. What would be the impact, if any, on the balance sheet for the fiscal year end if Robb makes a provision for the lawsuit in the financial statements?
- Liabilities would be reduced and shareholders' equity would be increased.
  - Liabilities would be increased and shareholders' equity would be reduced.
  - Assets would be increased and liabilities would be reduced.
  - There would be no impact on the financial statements.

37. At the end of the current fiscal year, Premiere Company reported net income of \$25,000. In addition, the following information is available.

	<u>Prior Fiscal Year</u>	<u>Current Fiscal Year</u>
Accounts receivable	\$10,000	\$12,000
Inventories	22,000	19,000
Prepaid expenses	6,000	7,000
Accounts payable	14,000	19,000
Long-term debt	70,000	62,000

What amount should be reported as cash flow from operating activities on Premiere's Statement of Cash Flows for the current fiscal year?

- a. \$25,000.
  - b. \$27,000.
  - c. \$33,000.
  - d. \$30,000.
38. Which one of the following is the **best** explanation as to why the percentage-of-completion method of accounting for long-term construction contracts is an exception to the revenue recognition principle?
- a. Expenses should be recognized and matched with the income they produce.
  - b. Revenues should not be recognized if there is a significant possibility the receivables cannot be collected.
  - c. Historical costs can be based on verifiable transactions.
  - d. Economic substance takes precedence over legal form.
39. Bill Jones is opening a new car dealership. His accountant has told him that there are several different methods of inventory valuation. Which one of the following inventory valuation methods is **most** appropriate for a new car dealership?
- a. Specific identification method
  - b. Perpetual average cost method
  - c. Periodic LIFO
  - d. Perpetual FIFO

40. On July 1 of the current year, Block Company issued \$200,000 of 8% ten-year bonds for \$227,398 when the market rate of interest was 7%. Interest is payable each year on January 1 and July 1, beginning January 1, next year. Assuming the effective interest rate method is used, what amount of interest expense should Block accrue on December 31 of the current year?
- a. \$8,000.
  - b. \$16,000.
  - c. \$7,959.
  - d. \$15,918.

## Sample Questions Part 2 - Answers

Question#	Key
1.	C
2.	A
3.	D
4.	C
5.	D
6.	D
7.	A
8.	A
9.	C
10.	C
11.	B
12.	C
13.	B
14.	D
15.	B
16.	D
17.	A
18.	A
19.	C
20.	A
21.	A
22.	A
23.	B
24.	B
25.	B
26.	D
27.	D
28.	D
29.	B
30.	D
31.	A
32.	D
33.	A
34.	A
35.	A
36.	B
37.	D
38.	D
39.	A
40.	C

