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Exam: 061684RR - THE IMPACT OF MANAGEMENT

When you have completed your exam and reviewed your answers, click **Submit Exam**. Answers will not be recorded until you hit **Submit Exam**. If you need to exit before completing the exam, click **Cancel Exam**.

Questions 1 to 20: Select the best answer to each question. Note that a question and its answers may be split across a page break, so be sure that you have seen the *entire* question and *all* the answers before choosing an answer.

1. Ignore income taxes in this problem.) Purvell Company has just acquired a new machine. Data on the machine follow:

Purchase cost	$50,000
Annual cost savings	$15,000
Life of the machine	8 years

The company uses straight-line depreciation and a $5,000 salvage value. (The company considers salvage value in making depreciation deductions.) Assume cash flows occur uniformly throughout a year.

The simple rate of return would be *closest* to

A. 18.75%.

B. 12.5%.

C. 17.5%.

D. 30.0%.

Use the following information to answer this question.

The most recent balance sheet and income statement of Teramoto Corporation appear below:

Comparative Balance Sheet	Ending Balance	Beginning Balance
Assets:		
Cash and cash equivalents	$43	$35
Accounts receivable	53	59
Inventory	73	69
Plant and equipment	582	490
Less accumulated depreciation	301	286
Total assets	$450	$367
Liabilities and stockholders' equity		
Accounts payable	$57	$48
Wages payable	21	18
Taxes payable	15	13
Bonds payable	21	20
Deferred taxes	20	21
Common stock	55	50
Retained earnings	261	197
Total liabilities and stockholders' equity	$450	$367

Income Statement

Sales	$893
Cost of good sold	587
Gross margin	306
Selling and administrative expense	189
Net operating income	117
Income taxes	35
Net income	$82

2. The net cash provided by (used by) operations for the year was

A. $117.

B. $112.

C. $30.

D. $52.

3. Cridwell Company's selling and administrative expenses for last year totaled $210,000. During the year, the company's prepaid expense account balance increased by $18,000, and accrued liabilities increased by $12,000. Depreciation charges for the year were $24,000. Based on this information, selling and administrative expenses adjusted to a cash basis under the direct method on the statement of cash flows would be

A. $192,000.

B. $240,000.

C. $180,000.

D. $228,000.

4. Products A, B, and C are produced from a single raw material input. The raw material costs $90,000, from which 5,000 units of A, 10,000 units of B, and 15,000 units of C can be produced each period. Product A can be sold at the split-off point for $2 per unit, or it can be processed further at a cost of $12,500 and then sold for $5 per unit. Product A should be

A. sold at the split-off point, since further processing will result in a loss of $2,500 each period.

B. processed further, since this will increase profits by $12,500 each period.

C. processed further, since this will increase profits by $2,500 each period.

D. sold at the split-off point, since further processing would result in a loss of $0.50 per unit.

Use the following information to answer this question.

The most recent balance sheet and income statement of Teramoto Corporation appear below:

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Assets:		
Cash and cash equivalents	$43	$35
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Income Statement

Sales	$893
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Income taxes	35
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5. The net cash provided by (used by) financing activities for the year was

A. ($18).

B. $5.

C. $1.

D. ($12).

6. Brittman Corporation makes three products that use the current constraint-a particular type of machine. Data concerning those products appear below:

	IP	NI	YD
Selling price per unit	$183.57	$207.74	$348.15
Variable cost per unit	$144.42	$155.04	$269.50
Minutes on the constraint	2.90	3.40	5.50

Assume that sufficient constraint time is available to satisfy demand for all but the least profitable product. Up to how much should the company be willing to pay to acquire more of the constrained resource?

A. $15.50 per minute

B. $39.15 per unit

C. $78.65 per unit

D. $13.50 per minute

Use the following information to answer this question.

Financial statements for Larkins Company appear below:

Larkins Company
Statement of Financial Position
December 31, Year 2 and Year 1

(dollars in thousands)

	Year 2	Year 1
Current assets:		
Cash and marketable securities	$180	$180
Accounts receivable, net	210	180
Inventory	130	120
Prepaid expenses	50	50
Total current assets	570	530
Noncurrent assets:		
Plant & equipment, net	1,540	1,480
Total assets	$2,110	$2,010
Current liabilities:		
Accounts payable	$100	$130
Accrued liabilities	60	60
Notes payable, short term	90	120
Total current liabilities	250	310
Noncurrent liabilities:		
Bonds payable	480	500
Total liabilities	730	810
Stockholders' equity:		
Preferred stock, $20 par, 10%	120	120
Common stock, $10 par	180	180
Additional paid-in capital--common stock	240	240
Retained earnings	840	660
Total stockholders' equity	1,380	1,200
Total liabilities & stockholders' equity	$2,110	$2,010

Larkins Company
Income Statement
For the Year Ended December 31, Year 2
(dollars in thousands)

Sales (all on account)	$2,760
Cost of goods sold	1,930
Gross margin	830
Selling and administrative expense	330
Net operating income	500
Interest expense	50
Net income before taxes	450
Income taxes (30%)	135
Net income	$315

Dividends during Year 2 totaled $135 thousand, of which $12 thousand were preferred dividends. The market price of a share of common stock on December 31, Year 2 was $150.

7. Larkins Company's dividend yield ratio on December 31, Year 2 was *closest* to:

A. 4.1%.

B. 2.1%.

C. 4.6%.

D. 5.0%.

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8. Larkins Company's earnings per share of common stock for Year 2 was *closest* to:

A. $16.83.

B. $25.00.

C. $17.50.

D. $7.21.

9. An increase in the market price of a company's common stock will immediately affect its

A. debt-to-equity ratio.

B. dividend payout ratio.

C. dividend yield ratio.

D. earnings per share of common stock.

Use the following information to answer this question.

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Total liabilities & stockholders' equity	$2,110	$2,010

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Net operating income	500
Interest expense	50
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Income taxes (30%)	135
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Dividends during Year 2 totaled $135 thousand, of which $12 thousand were preferred dividends. The market price of a share of common stock on December 31, Year 2 was $150.

10. Larkins Company's book value per share at the end of Year 2 was *closest* to:

A. $10.00.

B. $23.33.

C. $70.00.

D. $76.67.

11. The net present value method assumes that the project's cash flows are reinvested at the

A. discount rate used in the net present value calculation.

B. internal rate of return.

C. simple rate of return.

D. payback rate of return.

12. VIM Company purchased $100,000 in inventory from its suppliers on credit terms. The company's acid-test ratio would *most* likely

A. decrease.

B. be impossible to determine without more information.

C. increase.

D. be unchanged.

13. A company's current ratio and acid-test ratios are both greater than 1. If obsolete inventory is written off, this would

A. increase net working capital.

B. increase the acid-test ratio.

C. decrease the acid-test ratio.

D. decrease the current ratio.

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Dividends during Year 2 totaled $135 thousand, of which $12 thousand were preferred dividends. The market price of a share of common stock on December 31, Year 2 was $150.

14. Larkins Company's return on total assets for Year 2 was *closest* to:

A. 13.6%.

B. 17.0%.

C. 15.3%.

D. 16.0%.

15. Degner Inc. has some material that originally cost $19,500. The material has a scrap value of $13,300 as is, but if reworked at a cost of $2,100, it could be sold for $14,000. What would be the incremental effect on the company's overall profit of reworking and selling the material rather than selling it as is as scrap?

A. -$1,400

B. -$20,900

C. -$7,600

D. $11,900

16. Which of the following would be considered a "use" of cash for the purpose of constructing a statement of cash flows?

A. Amortizing a patent

B. Issuing long-term debt

C. Selling the company's own common stock to investors

D. Purchasing equipment

17. Kava Inc. manufactures industrial components. One of its products, which is used in the construction of industrial air conditioners, is known as K65. Data concerning this product are given below:

	Per Unit
Selling price	$180
Direct materials	$29
Direct labor	$5
Variable manufacturing overhead	$4
Fixed manufacturing overhead	$21
Variable selling expense	$2
Fixed selling and administrative expense	$17

The above per unit data are based on annual production of 4,000 units of the component. Direct labor can be considered to be a variable cost. (Source: CMA, adapted)
The company has received a special, one-time-only order for 500 units of component K65. There would be no variable selling expense on this special order, and the total fixed manufacturing overhead and fixed selling and administrative expenses of the company wouldn't be affected by the order. Assuming that Kava has excess capacity and can fill the order without cutting back on the production of any product, what is the minimum price per unit on the special order below which the company shouldn't go?

A. $78

B. $180

C. $38

D. $59

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Income taxes	35
Net income	$82

18. The net cash provided by (used by) investing activities for the year was

A. ($77).

B. $77.

C. $92.

D. ($92).

19. The Clemson Company reported the following results last year for the manufacture and sale of one of its products known as a Tam.

Sales (6,500 Tams at $130 each)	$845,000
Variable cost of sales	390,000
Variable distribution costs	65,000
Fixed advertising expense	275,000
Salary of product line manager	25,000
Fixed manufacturing overhead	145,000
Net operating loss	$(55,000)

Clemson Company is trying to determine whether to discontinue the manufacture and sale of Tams. The operating results reported above for last year are expected to continue in the foreseeable future if the product isn't dropped. The fixed manufacturing overhead represents the costs of production facilities and equipment that the Tam product shares with other products produced by Clemson. If the Tam product were dropped, there would be no change in the fixed manufacturing costs of the company.
Assume that discontinuing the manufacture and sale of Tams will have no effect on the sale of other product lines. If the company discontinues the Tam product line, the change in annual operating income (or loss) should be a

A. $65,000 decrease.

B. $90,000 decrease.

C. $70,000 increase.

D. $55,000 decrease.

20. (Ignore income taxes in this problem.) The following data pertain to an investment:

Cost of the investment	$18,955
Life of the project	5 years
Annual cost savings	$5,000
Estimated salvage value	$1,000
Discount rate	10%

The net present value of the proposed investment is

A. $0.

B. $3,355.

C. $621.

D. $(3,430).

End of exam