

Core 2 Self-Assessed Entrance Exam

1. Which of the following is a valid reason to allocate the cost of a support department, such as engineering services, to the products manufactured in an operating department?
 - a. To determine the net margin of the products.
 - b. To reprimand the manager of a poorly performing operating department.
 - c. To earn additional profits by inflating the cost of products manufactured for a potential client.
 - d. Allocating support costs allows management to make the decision to abandon one of the products manufactured in the operating department.

2. In which of the following circumstances is the zero-based budgeting approach most useful?
 - a. In organizations involved in high-growth industries, where strategic decisions need to be made quickly
 - b. In governmental and non-profit sectors, where every expenditure must be justified
 - c. In high-tech factories, where zero-defect policies are implemented
 - d. In organizations that favour management flexibility and focus only on the big picture

3. Orange Ltd. manufactures juice with two different ingredients: 100% of ingredient A is added at the beginning of the production process; 100% of Ingredient B is added when the juice is 60% complete. Conversion costs are added uniformly throughout the entire production process.

Quality testing is conducted at the 60% conversion point, prior to adding ingredient B. Rejected units at quality testing are accounted for as spoilage, and spoilage is included in equivalent units of output. Production data for May, Year 5, are as follows:

WIP inventory, May 1 (25% converted)	40,250 units
Started in production	85,000 units
Spoiled	300 units
Completed production	90,000 units
WIP inventory, May 31 (80% converted)	34,950 units

For May, direct material costs incurred and in beginning WIP inventory totalled \$220,000 for ingredient A and \$350,000 for ingredient B. Using the weighted average method, what is the cost per equivalent unit (EU) for ingredient A and ingredient B?

- a. \$2.59 and \$2.80
- b. \$1.76 and \$2.80
- c. \$2.59 and \$3.89
- d. \$2.44 and \$3.89

4. DBS Ltd. produces a single product. For the current year, budgeted sales volume is 90,000 units and budgeted production volume is 100,000 units. The following standards were used in preparing the current year's budget:

Selling price	\$200 per unit
Variable direct material costs	\$127 per unit
Variable direct labour costs	\$6 per unit
Fixed manufacturing overhead	\$2,800,000 per year
Fixed selling and administration	\$300,000 per year

Assuming DBS Ltd. uses variable costing, what is its budgeted net profit for the current year?

- a. \$1,600,000
- b. \$2,930,000
- c. \$3,240,000
- d. \$3,600,000

5. Deejay Co. uses a process costing system. In Department 2, direct materials are added at the 50% stage of completion of the process, and conversion costs are added uniformly throughout the process.

For the month of March, Department 2 had:

Beginning WIP	6,000 units, 60% completed as to conversion costs
Transferred in	42,000 units
Ending WIP	3,000 units 40% completed as to conversion costs
	5,000 units 80% completed as to conversion costs

No spoilage was reported during March.

In computing the equivalent units (EU) of production for direct materials for the month of March, how would the calculation of the weighted average method differ from that of the FIFO method?

- a. It would be 8,000 higher under the weighted average method than under the FIFO method.
- b. It would be 6,000 higher under the weighted average method than under the FIFO method.
- c. It would be 6,000 lower under the weighted average method than under the FIFO method.
- d. It would be the same under the weighted average method as under the FIFO method.

6. Molly Smith is the regional manager at a credit union and supervises four branch managers. During the annual budgeting period, Molly provides some general guidance and historical information to her branch managers on budget targets, but leaves the actual budget preparation to the managers to encourage them to take ownership of their plans. What budgetary approach are Molly and her managers displaying?

- a. Participative budgeting
- b. Zero-based budgeting
- c. Traditional budgeting
- d. Budget as a performance measure

7. Which of the following statements about balanced scorecards is true?

- a. Balanced scorecards always have four perspectives.
- b. Balanced scorecards are only for organization-wide performance management.
- c. Balanced scorecards can be used in not-for-profit organizations.
- d. Balanced scorecards must be updated annually.

8. A manufacturer has the following data:

Department	Available annual machine hours	Hours required per unit	
		Widget A	Widget B
Assembly	10,000	3	4
Packaging	4,000	1	2

The contribution margin (CM) per unit for Widget A is \$12 and for Widget B is \$14. Current market demand for Widget A is limited to 2,500 units per year. What is the yearly product mix that maximizes profitability?

- a. 0 Widget A, 2,000 Widget B
- b. 2,000 Widget A, 1,000 Widget B
- c. 2,500 Widget A, 625 Widget B
- d. 0 Widget A, 2,500 Widget B

9. Russ has developed a new device that he hopes to produce and market on a large scale. Russ will rent a production space for \$500 per month and production equipment for \$800 per month. Russ estimates the material cost per unit will be \$5 and the labour cost per unit will be \$3. Advertising and promotion will cost \$900 per month. He will hire workers so he can spend his time promoting the product.

In this context, the production space rental is a:

- a. Fixed period cost
- b. Variable period cost
- c. Variable product cost
- d. Fixed product cost

10. The following is information from the records of SKT Inc. for the month of June:

	Opening inventory June 1	Ending inventory June 30	Purchased in June
Direct materials	\$100,000	\$100,000	\$920,000
Indirect materials	\$20,000	\$15,000	\$40,000
Work-in-progress	0	0	n/a

- Other expenses:
- Direct labour: \$680,000
- Rent and utilities: \$200,000
- Administrative salaries and benefits: \$36,000

The rent and utilities covers the factory and the head office. SKT Inc. allocates 60% of rent and utilities to manufacturing and 40% to selling and administration.

What amount of indirect manufacturing costs would be charged to the cost of goods manufactured in June?

- \$160,000
- \$165,000
- \$1,765,000
- \$1,085,000

11. HWW Inc. has a job-order costing system. The company uses predetermined overhead rates in applying manufacturing overhead costs to individual jobs. The predetermined overhead rate in Department A is based on machine hours, and the rate in Department B is based on direct materials cost. HWW has the following estimates for the year:

	Department A	Department B
Machine hours	50,000	68,000
Direct labour hours	45,000	60,000
Direct materials cost	\$250,000	\$220,000
Direct labour cost	\$300,000	\$280,000
Manufacturing overhead cost	\$395,000	\$455,000

What are the predetermined overhead rates for Department A and Department B?

- \$7.20 and 1.81
- \$8.78 and 2.07
- \$7.20 and 1.62
- \$7.90 and 2.07

12. The budgeted total fixed and variable costs of the machine insertion activity centre for XYZ Corp. in Year 8 is \$530,000, assuming an activity level of 50,000 parts inserted. Cost behaviour analysis indicates that the variable cost per part inserted is \$2.20 and that fixed costs remain the same within the relevant range of 48,000 to 52,000 parts inserted. Activity analysis indicates that the cost driver for the machine insertion activity is the number of parts inserted.

In preparing a flexible budget for Year 8 at an activity level of 51,000 parts inserted, what would be the budgeted total costs of the machine insertion activity (rounded to the nearest hundred dollars)?

- a. \$642,200
- b. \$540,600
- c. \$532,200
- d. \$530,000

13. A product is being produced that requires manufacturing space costing \$1,000 per month and the lease of equipment for \$700 per month. The material cost will be \$12 per unit and the labour cost will be \$13 per unit. Advertising and promotion will cost \$2,000 per month.

Advertising and promotion is a:

- a. Variable product cost
- b. Fixed product cost
- c. Fixed period cost
- d. Variable period cost

14. A factory manager's salary is a:

- a. Variable product cost
- b. Fixed product cost
- c. Variable period cost
- d. Fixed period cost

15. Matilda Ma Home Accessories has determined that for its Floorina model of lamp, the direct materials cost is \$5 per unit and the direct labour cost is \$4 per unit. Based on 20 monthly observations, the company ran a regression that projected the overhead associated with this model of lamp as follows:

Overhead = \$16,500 + \$0.75X, where X is the direct labour cost.

The selling price for the Floorina lamp is \$17 per unit. What is the expected gross margin from sales of the Floorina lamp next month if sales volume is estimated to be 5,000 units?

- a. \$8,500
- b. \$19,750
- c. \$23,500
- d. \$36,250

16. A company has the following machine hours and production costs for the last six months of last year:

Month	Machine hours	Production cost
July	15,000	\$12,330
August	13,500	10,300
September	11,500	9,580
October	15,500	12,080
November	14,800	11,692
December	12,100	9,922

If the company expects to incur 14,000 machine hours in January, what will be the total production cost estimate using the high-low method?

- a. \$8,750
- b. \$11,143
- c. \$11,544
- d. \$13,049

17. Which of the following statements regarding the organizational performance measurement tool Six Sigma is true?

- a. It applies only to reducing manufacturing defects.
- b. It uses statistical quality control and measurement methods to drive improvements in key strategic processes.
- c. It translates the company strategy into four balanced measurement perspectives.
- d. It is focused on several categories, including leadership, strategic planning, and results.

18. Which of the following activities is most likely an example of a non-value-added activity?

- a. Putting a motor in an automobile in an automobile factory
- b. Moving work-in-process inventories from one part of the factory to another
- c. Delivering finished goods to the customer
- d. Adding spices to a cooked meal in a restaurant

19. DBS Ltd. produces a single product. For the current year, budgeted sales volume is 90,000 units and budgeted production volume is 100,000 units. The following standards were used in preparing the current year's budget:

Selling price	\$200 per unit
Variable direct material costs	\$127 per unit
Variable direct labour costs	\$6 per unit
Fixed manufacturing overhead	\$2,800,000 per year
Fixed selling and administration	\$300,000 per year

Assuming DBS uses absorption costing, what is its budgeted net profit for the current year?

- a. \$1,600,000
- b. \$2,930,000
- c. \$3,210,000
- d. \$3,240,000

20. A manufacturer processes 100,000 kilograms of direct materials to produce two products: Product X and Product Z.

	Production (kg) at split-off	Selling price at split-off
Product X	15,000	\$70
Product Z	40,000	\$90
Waste	45,000	\$0

The total costs incurred in the joint manufacturing process were \$1,000,000.

Using the physical measures method, what are the joint costs allocated to products X and Z (rounding to the nearest dollar)?

- a. Product X: \$437,500; Product Z: \$562,500
- b. Product X: \$225,806; Product Z: \$774,194
- c. Product X: \$500,000; Product Z: \$500,000
- d. Product X: \$272,727; Product Z: \$727,273

21. Which of the following statements about a well-designed performance measurement system is true?

- a. It includes measures that are related to the goals of the organization.
- b. It includes measures that primarily focus on immediate short-term concerns.
- c. It includes measures that are mostly qualitative and require judgment.
- d. It includes measures that are easily attainable to allow for positive morale.

22. ZIL Inc. operates two divisions, which are treated as investment centres. Data for each division are as follows (in '000s):

	Division A	Division B
Net earnings	\$65,000	\$140,000
Total assets	\$400,000	\$850,000

The company's required rate of return is 15%. The president wishes to evaluate the performance of these divisions relative to one another and is unsure what the return on investment or residual income would be for each division.

Based on the return on investment and residual income performance measures, which of the following statements is true?

- a. Division A performed better, because its residual income is higher than that of Division B.
- b. Division B performed better, because its return on investment and residual income are higher than those of Division A.
- c. Division A performed better, because its return on investment is higher than that of Division B.
- d. The divisions performed equally.

23. After an analysis of an organization's operations, it was evident that department performance varied and that every department worked independently to achieve departmental objectives. The organization would like to improve overall product output, which would require improvement from all departments.

To achieve this improvement, the organization should do which of the following?

- a. Introduce cost savings as financial departmental performance measures.
- b. Develop a wage structure.
- c. Increase the rewards offered to employees in well-performing departments.
- d. Launch a plant-wide incentive pay plan.

24. Glory Ltd. sells tires. In March, it had an opening inventory of 3,500 tires and it sold 5,000 tires. For April, budgeted sales are 5,250 tires and budgeted ending inventory is 3,000 tires. If there were 3,300 tires in inventory on March 31, how many tires should Glory purchase in April?

- a. 4,950
- b. 8,250
- c. 4,750
- d. 1,950

25. The first step in formulating next year's master budget for a manufacturing company is to project which of the following?

- a. Next year's sales budget to decide next year's sales volume
- b. Next year's cash budget to decide if the company needs to take out a bank loan
- c. Next year's materials and labour budget to decide on next year's direct material costs and direct labour costs
- d. Next year's production budget to decide on next year's production schedule

26. Deatter Co. is a manufacturer of office furniture. It sells two products: X and Y. Cost information is listed below:

	Product X	Product Y
Selling price	\$490	\$560
Variable costs	280	420
Contribution	\$210	\$140
Machine hours to produce one unit	0.8	0.4
Maximum unit sales per month	525	700

The company presently operates the machine for a single eight-hour shift for 23 working days each month. Management is thinking about operating the machine for two shifts, which will increase the machine's availability by another eight hours per day for 23 days per month. This change would require additional fixed costs of \$5,000 per month.

If the company decides to set up the new shift, what is the objective formula for the month?

- a. $262.5X + 350Y - 5,000 = \text{profit}$
- b. $0.8X + 0.4Y \leq 8 \text{ hours}$
- c. $210X + 140Y - 5,000 = \text{profit}$
- d. $0.8X + 0.4Y \leq 368 \text{ hours}$

27. The production budget and the total number of units to be produced are as follows:

	Q1	Q2	Q3	Q4
Units of production	63,600	54,400	40,600	48,400

The time required to produce one unit is 36 minutes. The direct labour cost per hour is \$11.25. What is the total annual direct labour cost?

- a. \$838,350
- b. \$2,328,750
- c. \$326,700
- d. \$1,397,250

28. Growit, a seed packing and distribution company, has just completed its first year of operations and has started to compile its three-year operational budget. Growit is using regression analysis in its business planning and has come up with four scenarios.

Which of the following represents the strongest relationship between the two variables, based on the regression analysis summary output?

a. Biweekly maintenance costs and machine hours

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.805645917
R Square	0.649065343
Adjusted R Square	0.634443066
Standard Error	16960.32863
Observations	26

ANOVA

	df	SS	MS	F	Significance F
Regression	1	12768560221	12768560221	44.38879984	6.84301E-07
Residual	24	6903665933	287652747.2		
Total	25	19672226154			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	439285.256	28757.1465	15.27569003	7.30E-14	379933.4227	498637.0893	379933.4227	498637.0893
Machine Hours	-1.817453317	0.272788817	-6.662492015	6.84301E-07	-2.380461765	-1.254444869	-2.380461765	-1.254444869

b. Monthly labour hours and overhead costs

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.855690647
R Square	0.732206484
Adjusted R Square	0.705427132
Standard Error	13029.68785
Observations	12

ANOVA

	df	SS	MS	F	Significance F
Regression	1	4641961513	4641961513	27.34220358	0.000384861
Residual	10	1697727654	169772765.4		
Total	11	6339689167			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	31886.02682	9098.883615	3.504388908	0.005684675	11612.45072	52159.60291	11612.45072	52159.60291
Labour-hours	9.452139604	1.807645944	5.228977297	0.000384861	5.424453445	13.47982576	5.424453445	13.47982576

c. Monthly number of units produced and distribution costs

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.917265618
R Square	0.841376214
Adjusted R Square	0.825513835
Standard Error	4912.063706
Observations	12

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1279822968	1279822968	53.0422476	2.65359E-05
Residual	10	241283698.6	24128369.86		
Total	11	1521106667			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	5187.720758	4043.535292	1.282966608	0.228440481	-3821.837324	14197.27884	-3821.837324	14197.27884
Number of Units	0.532926491	0.073173925	7.283010888	2.65359E-05	0.369884826	0.695968156	0.369884826	0.695968156

d. Monthly number of shipments and logistics costs

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.741157322
R Square	0.549314175
Adjusted R Square	0.504245593
Standard Error	8279.741616
Observations	12

ANOVA

	df	SS	MS	F	Significance F
Regression	1	835565454.4	835565454.4	12.18840588	0.005811441
Residual	10	685541212.3	68554121.23		
Total	11	1521106667			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	9073.11579	7195.257176	1.260985614	0.235938523	-6958.916275	25105.14785	-6958.916275	25105.14785
Number of Shipments	88.71220297	25.41030688	3.491189752	0.005811441	32.09451097	145.329895	32.09451097	145.329895

29. Which of the following statements about transfer pricing is true?

- a. Division managers favour cost-based transfer pricing because it typically yields an equitable share of profits.
- b. A cost-based transfer price typically leads to optimal decisions by both the internal seller and the internal buyer.
- c. A negotiated transfer price promotes autonomy among division managers, but it can be time-consuming.
- d. Use of market-based transfer pricing motivates managers to deal with customers and suppliers in the external market.

30. Bartok Motors Inc. operates as a decentralized multidivisional company. The Cantata Division purchases most of its motors from the Concerto Division.

The Concerto Division:

- has variable costs of \$620 per motor
- has sufficient excess capacity to satisfy the Cantata Division's motor requirements
- can sell motors to external customers for \$890

Which of the following statements BEST describes acceptable transfer pricing at Bartok Motors Inc.?

- The minimum transfer price the Concerto Division is willing to accept on sales to the Cantata Division is \$620.
- The minimum transfer price the Concerto Division is willing to accept on sales to the Cantata Division is \$890.
- The maximum transfer price the Cantata Division is willing to pay on purchases from the Concerto Division is \$890.
- Both a) and c) above.

31. The customer service department of Conglomerate Co. provides services for several other divisions and to external customers. One of the internal customers is Online and Catalogue Sales (OCS). The OCS division recently received an offer from an external customer service company to provide services at a price of \$5.00 per customer service call.

The internal customer service department currently sells services to external customers for \$5.50 per call and has excess capacity. All of the customer service department costs are fixed, and the allocated costs per call are as follows:

Labour cost	\$2.00
Computer, telephone, and other office overhead	1.00
Total cost per call	\$3.00

Which of the following transfer prices would most likely lead to a suboptimal decision by the customer service department and/or the OCS division?

- Market-based price of \$5.50 per call
- Cost-based price of \$3.00 per call
- Cost-based price of \$0.00 per call
- Negotiated price of \$4.00 per call

32. Which of the following statements about a company's transfer price is true?

- a. It is the price charged externally by one subunit of an organization.
- b. It should include opportunity cost when there is excess capacity.
- c. It is a negotiated price where the seller sets the price.
- d. It should discourage suboptimal decisions.

33. The levelling and initial decrease in sales growth of a product take place in which stage of the product life cycle?

- a. The decline stage
- b. The maturity stage
- c. The growth stage
- d. The product introduction stage

34. Which of the following best describes a target-pricing approach?

- a. Setting a price that focuses management on achieving a specific cost
- b. Adding a desired markup to a predetermined cost to set a price
- c. Charging a low price to enter the marketplace
- d. Charging a higher price during high-demand periods

35. ABC sells consumer electronics and personal computers. Each year, ABC is first to release an innovative tech gadget unparalleled by its competitors.

What is the best pricing strategy for ABC to maximize profits?

- a. Penetration pricing
- b. Skimming
- c. Full absorption cost
- d. Value-based pricing

36. Which of the following factors would be most relevant to a cost-based pricing strategy?

- a. Price sensitivity
- b. Industry structure
- c. Product life cycle
- d. Product cost markup

37. ABC Ltd. produces widgets, and expected sales are as follows:

Month	Units
May	7,500
June	8,000
July	6,000

The company generally maintains an ending finished goods inventory volume of 15% of the next month's sales volume and keeps no work-in-process inventory. The widget sells for \$120 and the cost of production is \$80 per unit.

What will be the budgeted cost of goods manufactured for June?

- a. \$616,000
- b. \$712,000
- c. \$544,000
- d. \$640,000

38. Pro forma financial statements are used for which of the following?

- a. To show what the financial results will be if targets set by a company are achieved
- b. To show the financial results that a company will likely achieve
- c. To show the financial results of a change or event for a company
- d. To show a retrospective analysis of a company's past performance

39. Which of the following is a limitation of a pro forma statement?

- a. Pro forma statements are only prepared for one year.
- b. Pro forma statements only focus on the income statement.
- c. Pro forma statements must align with the expectations stated in the budget.
- d. Pro forma statements require assumptions to be made about a planned transaction or strategy that may or may not be realistic.

40. Which of the following statements is true?

- a. A forecast represents the company's plan, and a pro forma statement captures assumptions for a significant event.
- b. A budget represents the company's plan, and a forecast captures assumptions for a significant event.
- c. A budget represents the company's plan, and a forecast describes the expected outcomes.
- d. A budget describes the expected outcomes, and a forecast represents the company's plan.

41. What is the basic difference between a static budget and a flexible budget?

- a. A static budget is based on rigid goals, whereas a flexible budget allows management latitude in meeting goals.
- b. A static budget is for an entire organization, whereas a flexible budget is applicable to individual departments.
- c. A static budget is based on standard costing, whereas a flexible budget is based on absorption costing.
- d. A static budget is based on one level of output, whereas a flexible budget can be adjusted for any level of output within the relevant range.

42. Kelowna Sun is a fruit juice company. Management is concerned about the fruit crops this year, as an invasive moth could significantly damage the fruit before maturity. Management expects that Kelowna Sun's fruit costs (cost of goods sold) will increase by 74% if this moth is found in the company's crop. Management wants to take a proactive approach and will spend \$30,000 to spray the crops, although there is no guarantee that this will eliminate all of the moths and prevent the damage. If the moth is found after the initial spraying, Kelowna Sun will have to hire a pest-control consultant at a cost of \$60,000.

Kelowna Sun's budgeted income statement is provided below:

Kelowna Sun Budget Operating profit

Revenue		\$1,893,100
Cost of goods sold		<u>962,300</u>
Gross margin		\$ 930,800
Expenses		
Advertising	\$132,000	
Consulting	50,000	
Pest control		
Rent	84,100	
Wages	<u>344,600</u>	<u>610,700</u>
Operating profit		<u>\$ 320,100</u>

What is the pro forma operating profit for Kelowna Sun, assuming moths are found after the initial spray?

- a. (\$482,002)
- b. (\$432,002)
- c. (\$422,002)
- d. (\$392,002)

43. Acme Beds Inc. produces two models of beds: Regular and Majestic. Budget and actual data are as follows:

	Static budget		Actual	
	Regular	Majestic	Regular	Majestic
Selling price per unit	\$300	\$800	\$325	\$825
Sales volume in units	4,500	5,500	4,500	5,200
Production volume in units	4,500	5,500	4,500	5,200
Variable costs per unit	\$220	\$590	\$218	\$583
Fixed cost (overall)	\$882,500		\$919,500	

What is the result of the variable cost and the fixed overhead variances for Acme Beds?

- a. Variable cost flexible budget variance is unfavourable and fixed overhead spending variance is favourable.
- b. Variable cost flexible budget variance is favourable and fixed overhead spending variance is unfavourable.
- c. Variable cost flexible budget variance is favourable and fixed overhead spending variance is favourable.
- d. Variable cost flexible budget variance is unfavourable and fixed overhead spending variance is unfavourable.

44. Which of the following is the most appropriate explanation for a company that experienced a favourable material price/rate variance and an unfavourable material quantity/efficiency variance?

- a. Materials were purchased at a discount and workers were well trained.
- b. The price of materials has decreased and demand for the product has decreased.
- c. The actual quantity of materials purchased was less than the estimated budgeted amount.
- d. Lower-quality materials that resulted in excessive waste were purchased at a discount.

45. A company's reward system is most effective at achieving the desired business outcomes if it does which of the following?

- a. It links incentives to factors that go beyond the strategic plan.
- b. It includes both monetary and non-monetary rewards linked to both individual and corporate performance.
- c. It bases the incentives and rewards of all employees on achieving departmental annual objectives.
- d. It is closely tied to the growth of the company's stock price.

46. Measuring individual performance using both financial and non-financial measures is crucial to accomplish which of the following?

- a. Ensuring compliance with the company's pre-established plan
- b. Demonstrating the importance of financial measures
- c. Ensuring that employees exercise full control over the performance measures
- d. Better aligning individual goals with the company objectives and strategies

47. Mary is the manager of Division A, which makes widgets. Division A is classified as a cost centre. Which of the following would be the most appropriate performance measurement for Mary?

- a. Residual income of Division A
- b. Direct material costs of the widgets
- c. Gross margin of the widgets
- d. Return on assets of Division A

48. An electrician is working on a new building alongside various other tradespeople and is paid an individual bonus based on the number of fixtures installed within a specified period of time. Which of the following is the primary benefit of including this incentive based on individual performance?

- a. Improved individual output
- b. Increased cooperation among employees
- c. Higher quality of installation
- d. Less risk imposed on the employee

49. In which of the four balanced scorecard perspectives would “increase employee morale” likely appear as a goal?

- a. Financial
- b. Internal business process
- c. Customer
- d. Learning and growth

50. The James Company requires 22,223 units to be sold to break even. The sales price per unit is \$10 and variable costs per unit are \$5.50. How much were the total fixed costs for this company?

- a. \$100,004
- b. \$122,227
- c. \$222,230
- d. \$111,115

51. MoneyCo, an e-bank that prides itself on offering great customer service, is reviewing the measures of its balanced scorecard. Under internal business process, which one of the following measures would be a good fit?

- a. Website maintenance downtime
- b. Employee training hours
- c. Supplier satisfaction
- d. Client retention

52. Farm Table is a not-for-profit organization that supports local farmers by hosting galas in different communities within the region. The meal at each gala is prepared by a local chef and highlights the local produce, meats, and cheeses of the host community. Farm Table's mandate is to put a spotlight on the goods offered in the community, and any net proceeds from these events go into advertising for the local farmers. The organization is supported by proceeds raised from galas and external donations. Farm Table is interested in implementing a balanced scorecard to ensure it is headed toward success. Which of the following is the best measure for Farm Table to implement?

- a. Effective utilization of volunteers
- b. Funds raised spent on their intended purpose
- c. Reduced spending on marketing to minimize administrative costs
- d. Launch of new programs

53. Which of the following is a likely result when a company encounters a data breach?

- a. No impact to the company because those affected will not be notified
- b. Decrease in net profits
- c. Decrease in lawsuits
- d. Decrease in expenses

54. HWW Inc. has a job-order costing system. The company uses predetermined overhead rates (POHRs) in applying manufacturing overhead costs to individual jobs. The POHR in Department A is based on machine hours, and the rate in Department B is based on direct materials cost. HWW has the following estimates for the year:

	A	B
Machine hours	50,000	68,000
Direct labour hours	45,000	60,000
Direct materials cost	\$250,000	\$220,000
Direct labour cost	\$300,000	\$280,000
Manufacturing overhead cost	\$395,000	\$455,000

Job 201 was completed on May 31 with the following cost information:

	A	B
Machine hours	500	550
Direct materials cost	\$27,000	\$20,000
Direct labour cost	\$31,000	\$32,000

Assume the POHR for Department A is \$8 and the POHR for Department B is 2.15. What is the total cost applied to job 201?

- a. \$172,450
- b. \$157,000
- c. \$118,400
- d. \$105,000

55. Given the following information for the manufacturing operations of REW Ltd. what is the cost of goods manufactured for the year?

	Opening inventory January 1	Ending inventory December 31
Direct materials	\$260,000	\$235,000
WIP	\$95,000	\$75,000
Finished goods	\$350,000	\$360,000

Direct materials purchased	\$350,000
Direct labour payroll	\$160,000
Direct labour hours	6,500
Factory overhead rate per direct labour hour (DLH)	\$10

- a. \$600,000
- b. \$595,000
- c. \$555,000
- d. \$620,000

56. Ink-it produces two high-end executive-focused pens. The first model, the “Office Buddy,” is designed for office use with a desktop penholder, while the other model, the “Travel Buddy,” is geared toward on-the-road executives, as it is lightweight and can go through airport security without issues. Data regarding the two model lines are shown below:

	Office Buddy	Travel Buddy
Expected production	35,000	115,000
Direct materials cost	\$17.00	\$9.25
Direct labour cost	\$3.75	\$4.10

Ink-it is considering implementing an activity-based costing system in its facility and has identified three primary activities:

	Office Buddy	Travel Buddy	Budgeted overhead cost
Assembly	3,000 labour hours	4,100 labour hours	\$110,000
Quality assurance	190 inspection hours	150 inspection hours	\$370,000
Packaging	125 boxes	265 boxes	\$34,000

What is the overhead cost per unit for the Office Buddy pens?

- a. \$28.30
- b. \$14.69
- c. \$7.55
- d. \$3.42

57. RS Inc. is considering implementing a new information system. One of the key steps in this process is establishing an internal steering committee. Which one of the following parties would **LEAST** likely be included in this committee?

- a. The purchasing department
- b. The vendor of the proposed system
- c. Senior management of RS
- d. RS’s in-house programmer

58. Which one of the following is a phase of the systems development life cycle (SDLC)?

- a. Initial feasibility study
- b. Current state analysis and implementation planning
- c. Post-implementation testing
- d. Requirements evaluation

59. The contribution margin ratio (CM ratio) is:

- a. revenues equalling costs.
- b. the CM converted to a percentage by dividing the CM dollar value by the variable costs.
- c. fixed costs less target profit.
- d. the CM converted to a percentage by dividing the CM dollar value by the sales value.

60. Alpha Leather Company (ALC) manufactures and sells two products: wallets and belts. Operating data pertaining to the two products is as follows:

	Wallets	Belts
Selling price per unit	\$30	\$50
Cost per unit:		
Variable manufacturing costs	\$8	\$15
Variable marketing costs	\$2	\$3
Fixed manufacturing costs	\$5	\$5
Fixed marketing costs	\$6	\$1

	Manufacturing
Wallets (per unit)	15 minutes
Belts (per unit)	40 minutes
Quarterly direct labour hour (DLH) capacity	3,600 hours

The maximum expected sales of wallets and belts for the next quarter are 7,500 units and 4,500 units, respectively.

Which of the following is the most important factor for ALC to consider in determining the optimal production plan for the next quarter?

- a. The selling price of wallets and belts
- b. The unit contribution margin of wallets and belts
- c. The contribution margin per direct labour hour of wallets and belts
- d. The total cost of wallets and belts

61. Which of the following statements is true?

- a. Differential income and incremental income are two terms used to describe the same thing.
- b. Sunk costs and opportunity costs are two terms used to describe the same thing.
- c. Quantitative factors and qualitative factors are two terms used to describe the same thing.
- d. Irrelevant costs and relevant costs are two terms used to describe the same thing.

62. BureauQuery Inc. (BQI) is a credit bureau. It maintains and updates online credit history and information on all Canadian consumers with a credit rating. To manage credit risk in the lending process, government-registered financial institutions pay BQI a monthly fee to access and search its online databases, or pay BQI a fee on a search-by-search basis.

BQI has the following security measures in place:

- Only pre-screened, bonded, authorized IT staff have access to the online credit history and information.
- Government-registered financial institutions submit a request for a BQI user account on the BQI website.
- After providing a business number, business name, address, and telephone number, the website immediately generates a username, and indicates that a secure random password generating device will be mailed within three business days.
- While the device is being shipped, a temporary password is provided for the institution to complete any required credit searches until its secure random password generating device is received and activated.

Which of the following is the best specific security measure to help ensure that fake clients are unable to access BQI's databases?

- a. Establish a firewall between internet and database servers.
- b. Perform a site visit before approving the client.
- c. Before providing a username or password, in every instance, query the government to confirm that the entity is registered as a financial institution, thereby ensuring the client is legitimate.
- d. Obtain a supported description of the client's security techniques and obtain management sign-off on the names of all individuals with authorization to access BQI's databases.

63. What is the role of the board of directors in a not-for-profit's strategic planning process?

- a. The board does not have a role. Strategic planning is the responsibility of management.
- b. The board should meet to (re)assess the organization's strategy and make changes, if needed.
- c. The board must develop the strategic plan and carry out the resulting action plan.
- d. The board must read the plan prepared by management and make no changes.

64. Yes You Can! is an after-school program for 12- to 18-year-olds that allows students to create and implement different community projects. It is run by a group of retired business professionals and student volunteers during the school year. The majority of funding comes from the provincial government. The board of directors is composed of teachers, parents, and a business professional.

Recently, one of the board members learned that the implementation of performance measures is a not-for-profit best practice. There are four categories of measures to consider: financial measures, internal business measures, learning and growth measures, and social impact measures.

Which of the following would be a good social impact measure?

- a. Cost per student enrolled
- b. The number of training sessions offered to volunteers
- c. The number of hours spent on community projects
- d. Number of returning volunteers

65. The Camp Canada Association is a local not-for-profit organization whose mandate is to provide camping experiences for children of low income families. While the association receives some government funding, most of their revenue comes from corporate sponsorship, donations, and fundraising activities.

Camp Canada Assoc. was started by Sue and John Williams. John is now the CEO (one of three paid employees). Sue is employed full-time as a lawyer and is not involved in the daily operations of Camp Canada Assoc. in any way.

Which one of the following is appropriate as part of Camp Canada Assoc.'s governance structure?

- a. According to governance best practice, the board must consist of at least 15 directors.
- b. John Williams, the CEO, should assume the position of chairperson.
- c. The Board of Directors must appoint an audit committee.
- d. The Board of Directors should develop clear policies to establish a code of conduct.

66. Which of the following provides a brief definition of “value proposition.”

- a. The promise a business makes to price-match the competition
- b. The unique service or feature that is attractive to customers
- c. The pricing strategy designed to maximize profits
- d. The assurance of product quality, price, and placement.

67. Which of the following provides the best description of a vision statement?

- a. A promise a business makes to price-match the competition.
- b. A vivid description of where the organization is going. It is future oriented, meant to inspire and give direction to an internal audience.
- c. A declaration of the core beliefs, principles, and philosophies that comprise the organizational culture, both internally and externally.
- d. A declaration of an organization’s strategic direction.

68. Which of the following provides the best description of a mission statement?

- a. A promise a business makes to price-match the competition.
- b. A vivid description of where the organization is going. It is future oriented, meant to inspire and give direction to an internal audience.
- c. A declaration of the core beliefs, principles, and philosophies that comprise the organizational culture, both internally and externally.
- d. A declaration of an organization’s strategic direction.

69. Pretty Styles, a small clothing company, has been experiencing competitive pressure from large retailers seeking to gain market share. Pretty Styles distinguishes itself through customer service, price, and community involvement.

In a SWOT analysis, which one of the following facts would be identified as a threat for Pretty Styles?

- a. Pretty Styles purchasing power is limited compared with large retailers.
- b. Pretty Styles lacks a performance evaluation system.
- c. Pretty Styles rate of expansion is insufficient to maintain its market share.
- d. There is increasing competition from large retailers.

70. In completing a SWOT analysis, which of the following is an example of a weakness?

- a. Suppliers in the industry control access to a scarce resource.
- b. Lack of advertising has led to poor brand recognition.
- c. Buyer preferences are shifting to a competing company.
- d. The inflation rate is higher than expected.

71. Which of the following best describes a network structure?

- a. A structure where organizations are divided into divisions, and each division has its own resources and is managed as a separate business.
- b. A structure where functional and business unit structures are combined at the same level of the organization.
- c. A structure that has no need for formal offices. Most of the activities are outsourced to strategic partners and the organizational structure is “virtual.”
- d. A structure where one person makes all the decisions, and everyone else implements them.

72. Which of the following provides a brief description of a strategic process?

- a. A process that involves all aspects of the organization in the strategic plan
- b. A process by which the vision, mission, and values are determined
- c. A process that ensures the organization is aligned with the organizational goals
- d. A process that determines the best competitive strategy

73. When does the bargaining power of suppliers increase?

- a. When there are many local suppliers of the product
- b. When the product is easy to acquire and requires limited skills to handle
- c. When the number of suppliers increases
- d. When a major customer buys in large quantities and is frequently unable to obtain sufficient inventory

74. What is the key difference between for-profit strategic planning and not-for-profit strategic planning?

- a. As profit isn't the goal, the focus of strategic planning in not-for-profits will predominantly be on whether the organization's objectives are achieved with the resources provided.
- b. There is uncertainty in the financial projections of not-for-profit organizations, so strategic plans are limited to one year.
- c. The strategic plan of for-profit enterprises must be approved by the board of directors.
- d. Not-for-profits that rely on public donations do not have to consider market conditions when preparing their strategic plans.

75. Joe Newbie quit his job with an accounting firm to start his own bookkeeping business. His strategy is to provide highly personal, low-cost, flat-rate service. His goal is to be the largest bookkeeping firm in the city. Despite a growing business and the addition of several assistants, his company remains unprofitable. His employees are too slow and, although he has tried to motivate them, they cannot deliver the services quickly enough. Even with Joe's careful budgeting, significant employee time overruns are the norm. To make matters worse, his clients often complain about costs and threaten to go elsewhere.

What is the most likely cause of Joe's lack of profitability?

- a. His generic competitive position strategy is to be the lowest-cost provider and to provide personal service.
- b. He needs to screen employees more carefully to ensure efficiency.
- c. His strategic goal is to be the largest bookkeeping firm in the city.
- d. His performance management system tracks employee time by customer and by job.

76. Which of the following is likely to be detected by an internal control system?

- a. Fraudulent actions concealed by a group of employees
- b. A decrease in market share
- c. Damage done to the company's reputation
- d. Unauthorized disbursements

77. Lilian is a new CPA and she has just accepted the position of treasurer with a small, local not-for-profit board. When reviewing the bank statements, she notices that there is a \$100 cheque each month payable to Joe Davison. Joe is one of the directors on the board and is also one of the three people authorized to sign cheques. When Lilian enquires, the board chairperson Carlos tells her that Joe takes care of shoveling snow, sweeping the walk and mowing the small lawn in front of the organization's building. Carlos goes on to say that Joe volunteers more than any other person. Besides, Joe needs the money and the payments were approved by the board a few years ago.

What, if anything, should Lilian do?

- a. Lilian should do nothing. Board approval is all that is required.
- b. Lilian should check with the auditors to see if the \$100 is a material amount.
- c. This payment is highly suspect and may be illegal. Lilian should resign so as to not be associated.
- d. Lilian should assist the board in improving its policies.

78. Which of the following is an example of an ethically questionable action committed by a controller?

- a. Near the end of a fiscal year with lower-than-expected profits, suggesting that an expensive advertising campaign be delayed until the next fiscal year
- b. Accepting a gift of a box of chocolates from a regular supplier and sharing the chocolates with all of the company's employees
- c. At the request of a manager, capitalizing instead of expensing the development costs of a new product when the probability of its success in the market is low
- d. Reporting to the chief financial officer a suspicion that a line manager is providing incorrect production data in an effort to increase his year-end bonus

79. The primary role of a Board of Directors is to:

- a. review the financial statements of the organization.
- b. oversee the implementation of the organization's internal controls.
- c. provide strategic direction to the organization and oversight of senior management's activities.
- d. manage the day to day operations of the organization.

80. Which of the following best describes a functional structure?

- a. A structure where organizations are divided into divisions, and each division has its own resources and is managed as a separate business.
- b. A structure where functional and business unit structures are combined at the same level of the organization.
- c. A structure where specialized departments are defined by their purpose and are staffed accordingly — for example, accounting, human resources, data processing, and sales.
- d. A structure where one person makes all the decisions, and everyone else implements them.

81. The bank is offering a savings account that will earn interest at 4%, compounded quarterly. The inflation rate is 1%. What is the effective annual rate (EAR) for this account?

- a. 3.0%
- b. 4.0%
- c. 4.1%
- d. 17.0%

82. Ryan Car Inc. (Ryan) is assessing the investment in a new machine that will cost \$450,000 after taxes. Ryan has forecasted that with the new machine, annual before-tax cash inflows will increase by \$125,000 per year for the next eight years. The company has an income tax rate of 15%.

What is the payback period for this project?

- a. 3.18 years
- b. 3.60 years
- c. 4.24 years
- d. 8.0 years

83. Quintesse Corp. recently issued shares to the public through an initial public offering (IPO). The initial issue price was \$20 per share. By the end of the first day, the shares were trading at \$32 per share.

Which of the following statements best describes what happened to the share price?

- a. The share price was underpriced in the IPO.
- b. The Green Shoe provision in the IPO caused the share price to rise.
- c. The increase in value is a result of the lockup period in the IPO.
- d. The red herring in the IPO priced the shares incorrectly.

84. Bolder Co. (Bolder) is considering a bond issue for \$5,000,000 that will mature in five years time, and is convertible into common shares at the investor's option. The bonds are redeemable at the company's option any time after the first year, at a price of \$103. Bolder is required to deposit \$1,000,000 annually with a trustee. Bolder must also maintain an EBITDA (earnings before interest, tax, depreciation, and amortization) to interest coverage ratio of at least 4.

Which of the following statements correctly explains the sinking fund provision related to this bond?

- a. Bolder must maintain an EBITDA-to-interest coverage ratio of at least 4.
- b. Bolder may repurchase the bonds at any time after the first year, at a price of \$103.
- c. Bolder must convert the bonds into shares upon the investor's request.
- d. Bolder must deposit \$1,000,000 each year with a trustee.

85. Which of the following is a disadvantage of informal negotiations with creditors?

- a. The process of informal negotiations is lengthy and expensive for the entity.
- b. Individual creditors have little say or control over what terms and conditions can be renegotiated, since the entire class of creditors has to agree.
- c. Individual creditors may refuse to negotiate, jeopardizing the entire restructuring plan for the company.
- d. The entity is required to provide cash flow forecasts to the creditors.

86. The current risk-free rate is 2.1% and the market risk premium is 5%. XYZ Co. (XYZ)'s common equity has a beta of 1.5. What is the expected cost of equity for XYZ?

- a. 6.45%
- b. 8.15%
- c. 9.6%
- d. 10.65%

87. The shares of Sunshine Ltd. (Sunshine's) are currently trading at \$54.65 per share and have a beta of 1.5. The risk-free rate of return is 2.0% and the average market risk premium is 4.5%.

What is the required rate of return on Sunshine's shares?

- a. 5.75%
- b. 6.75%
- c. 8.75%
- d. 11.75%

88. Boros Ltd. has determined the cash flows to be generated from a project as follows:

Year 1	\$50,000
Year 2	\$75,000
Year 3	\$30,000

The appropriate discount rate for this investment is 15%.

How much must Boros initially invest in this project in order to generate a project return of 15%?

- a. \$119,915
- b. \$137,902
- c. \$134,783
- d. \$155,000

89. Costmo Inc. is using the present value interest factor (PVIF) formula approach to determine the NPV of an investment.

If a discount rate of 12% is being used, what will be the PVIF for cash flows received in Year 4?

- a. 0.2232
- b. 0.5997
- c. 0.6355
- d. 1.5735

90. Which one of the following companies is most likely able to use debt financing to improve shareholder returns, provided that investments are profitable?

- a. A company that has financially strong competitors with low debt balances
- b. A company with a steady, predictable cash flow
- c. A company with low earnings and cumulative losses
- d. A company with high costs of financial distress

91. Which of the following describes the optimal capital structure for an entity?

- a. 100% debt, because of the deductibility of interest
- b. 100% equity, because there is no risk of financial distress costs
- c. The mix of debt and equity that minimizes an entity's cost of capital and maximizes the value of the company
- d. 50% debt and 50% equity, which strikes a balance between leverage and risk of default

92. Which of the following statements best describes project financing?

- a. The lender will assess the value of the assets at the time the lending agreement is signed to determine the amount of funds to advance.
- b. In addition to collateral, the lender will require covenants be met.
- c. The lender assesses the cash flow stream related to the completed project to determine the repayment terms and interest rate.
- d. The lender will provide a loan for the refinancing of an established office building owned by a company.

93. Notwithstanding its drawbacks, the payback period method is widely used as a project evaluation tool, as it can provide useful information. Which of the following statements about the payback period method is **true**?

- a. The payback period method gives an indication of how quickly the firm will recover its investment.
- b. The payback period method is helpful in evaluating how sensitive a net present value calculation is to small changes in assumptions.
- c. The payback period method accounts for all cash flows in the project under consideration.
- d. It is very easy to compare opportunity costs when the payback period method of project evaluation is used.

94. Which of the following best describes the type of financing that would be most appropriate for the commercialization stage of a company?

- a. Short-term line of credit
- b. Long-term secured bank loan
- c. Equity supplied by a venture capitalist
- d. None, as there is no external capital required during this phase

95. Financial analysis and planning is an essential process, but one that is subject to a number of limitations. Which of the following is the most severe limitation of the financial planning process?

- a. The financial planning process allows management to monitor the sensitivity of forecast results to changes in key variables.
- b. The entire management group should be involved in the financial planning process.
- c. The basic financial plan arrived at through the financial planning process is only a starting point.
- d. The financial plan must be constantly updated to reflect fast-changing micro- and macroeconomic conditions.

96. During which phase of the business life cycle is a venture capitalist most likely to participate in financing a business?

- a. Startup (introduction)
- b. Maturity
- c. Commercialization
- d. Decline

97. Several years ago, Carlos Cannery Ltd. (CCL) granted 50,000 employee stock options with the following terms and conditions:

Each option vests at the end of three years and expires three years later. The exercise price is \$35 per share (equal to the market price at the date of the grant). If an employee leaves during the vesting period, the options are forfeited at this time. These are equity-settled options. The fair value of each option (determined using the Black-Scholes model) is \$4.25 per option at the time of the grant.

One year after the options vested, 20,000 of these options were exercised by the employees when the market price of CCL's shares was \$65 per share.

Which of the following correctly outlines the outcome for the company for the exercise of these options?

- a. When the options are exercised, the company will receive \$600,000 and issue 20,000 new shares.
- b. When the options are exercised, the company will receive \$700,000 and issue 20,000 new shares.
- c. When the options are exercised, the company will receive \$85,000 and issue 20,000 new shares.
- d. When the options are exercised, the company will receive no additional cash. Instead, 20,000 are issued and a compensation expense of \$85,000 is recognized.

98. Which of the following statements best describes share-based compensation?

- a. Share-based compensation arrangements are used by private companies that plan to remain private.
- b. Share-based compensation arrangements align stakeholder objectives by discouraging risky behaviour.
- c. The primary reason for share-based compensation arrangements is to align employees' objectives with shareholders.
- d. Stock options issued under a share-based compensation arrangement are valued through direct comparison with listed shares.

99. Laurie wants to have \$50,000 in 10 years for a vacation. She is considering an investment that will pay annual interest of 6%, compounded quarterly. How much does Laurie need to invest today in this investment?

- a. \$27,563.12
- b. \$27,919.74
- c. \$43,083.36
- d. \$90,700.92

100. Show Us Co. has annual credit sales of \$16,000,000. If the company decides to increase its credit terms to 40 days from 30 days, which of the following statements regarding the impact of this policy change on the company's accounts receivable turnover ratio is true?

- a. The turnover will increase by 3.1.
- b. The turnover ratio will decrease by 3.1.
- c. The turnover will increase by 9.1.
- d. The turnover will decrease by 12.2.