Core 2 Self-Assessed Entrance Exam - Questions

1. MA480:
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. MA495:
Omega Co. manufactures two chemicals in a joint process. The manufacturing cost of the joint process is $60,000. The chemicals can be sold in their unrefined form immediately after the split-off point or they can be further refined before they are sold.

What is the main reason why Omega would want to allocate the manufacturing cost of the joint process to products A and B?

a. It allows Omega to rank products A and B in terms of their respective profitability.
b. It allows Omega to determine the inventory value for products A and B.
c. It provides the basis for deciding whether products A and B should be refined further.
d. It provides the basis for deciding whether product A or B should be abandoned.
3. MA482:
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:

<table>
<thead>
<tr>
<th>WIP inventory, May 1 (25% converted)</th>
<th>40,250 units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Started in production</td>
<td>85,000 units</td>
</tr>
<tr>
<td>Spoiled</td>
<td>300 units</td>
</tr>
<tr>
<td>Completed production</td>
<td>90,000 units</td>
</tr>
<tr>
<td>WIP inventory, May 31 (80% converted)</td>
<td>34,950 units</td>
</tr>
</tbody>
</table>

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. MA483:
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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$200 per unit</td>
</tr>
<tr>
<td>Variable direct material costs</td>
<td>$127 per unit</td>
</tr>
<tr>
<td>Variable direct labour costs</td>
<td>$6 per unit</td>
</tr>
<tr>
<td>Fixed manufacturing overhead</td>
<td>$2,800,000 per year</td>
</tr>
<tr>
<td>Fixed selling and administration</td>
<td>$300,000 per year</td>
</tr>
</tbody>
</table>

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. MA498:
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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Units</th>
<th>Completion as to Conversion Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning WIP</td>
<td>6,000</td>
<td>60%</td>
</tr>
<tr>
<td>Transferred in</td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td>Ending WIP</td>
<td>3,000</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>5,000</td>
<td>80%</td>
</tr>
</tbody>
</table>

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. MA503:
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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning WIP</strong></td>
<td>6,000 units, 60% completed as to conversion costs</td>
</tr>
<tr>
<td><strong>Transferred in</strong></td>
<td>42,000 units</td>
</tr>
<tr>
<td><strong>Ending WIP</strong></td>
<td>3,000 units 40% completed as to conversion costs</td>
</tr>
<tr>
<td></td>
<td>5,000 units 80% completed as to conversion costs</td>
</tr>
</tbody>
</table>

No spoilage was reported during March.

Using the weighted average method, the number of equivalent units of production for conversion costs would be:

a. 39,200  
b. 40,000  
c. 44,000  
d. 45,200
7. MA850:
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. MA629:
A manufacturer has the following data:

<table>
<thead>
<tr>
<th>Department</th>
<th>Available annual machine hours</th>
<th>Widget A</th>
<th>Widget B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly</td>
<td>10,000</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Packaging</td>
<td>4,000</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

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. MA476:
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. MA485:
The following is information from the records of SKT Inc. for the month of June:

<table>
<thead>
<tr>
<th></th>
<th>Opening inventory June 1</th>
<th>Ending inventory June 30</th>
<th>Purchased in June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$920,000</td>
</tr>
<tr>
<td>Indirect materials</td>
<td>$20,000</td>
<td>$15,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Work-in-progress</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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?

a. $160,000  
b. $165,000  
c. $1,765,000  
d. $1,085,000
11. MA506:
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:

<table>
<thead>
<tr>
<th></th>
<th>Department A</th>
<th>Department B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine hours</td>
<td>50,000</td>
<td>68,000</td>
</tr>
<tr>
<td>Direct labour hours</td>
<td>45,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Direct materials cost</td>
<td>$250,000</td>
<td>$220,000</td>
</tr>
<tr>
<td>Direct labour cost</td>
<td>$300,000</td>
<td>$280,000</td>
</tr>
<tr>
<td>Manufacturing overhead cost</td>
<td>$395,000</td>
<td>$455,000</td>
</tr>
</tbody>
</table>

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

a. $7.20 and 1.81
b. $8.78 and 2.07
c. $7.20 and 1.62
d. $7.90 and 2.07
12. MA502:
Deejay Co. uses an actual 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.

<table>
<thead>
<tr>
<th>March 1</th>
<th>6,000 units; 60% complete for conversion costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Started in March</td>
<td>42,000 units</td>
</tr>
<tr>
<td>March 31</td>
<td>8,000 units in work-in-progress (WIP) · 3,000 units were 40% complete as to conversion costs · 5,000 were 80% complete as to conversion costs</td>
</tr>
</tbody>
</table>

No spoilage was reported during March.

Using the first in, first out (FIFO) method, what is the number of equivalent units of production for the direct materials for March?

a. 39,000  
b. 40,000  
c. 42,000  
d. 45,000
13. MA492:
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. MA491:
A factory manager’s salary is a:

a. Variable product cost
b. Fixed product cost
c. Variable period cost
d. Fixed period cost
15. MA477:
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. MA478:
A company has the following machine hours and production costs for the last six months of last year:

<table>
<thead>
<tr>
<th>Month</th>
<th>Machine hours</th>
<th>Production cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>15,000</td>
<td>$12,330</td>
</tr>
<tr>
<td>August</td>
<td>13,500</td>
<td>10,300</td>
</tr>
<tr>
<td>September</td>
<td>11,500</td>
<td>9,580</td>
</tr>
<tr>
<td>October</td>
<td>15,500</td>
<td>12,080</td>
</tr>
<tr>
<td>November</td>
<td>14,800</td>
<td>11,692</td>
</tr>
<tr>
<td>December</td>
<td>12,100</td>
<td>9,922</td>
</tr>
</tbody>
</table>

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. MA578:
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. MA577: 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. MA484:
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:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$200 per unit</td>
</tr>
<tr>
<td>Variable direct material costs</td>
<td>$127 per unit</td>
</tr>
<tr>
<td>Variable direct labour costs</td>
<td>$6 per unit</td>
</tr>
<tr>
<td>Fixed manufacturing overhead</td>
<td>$2,800,000 per year</td>
</tr>
<tr>
<td>Fixed selling and administration</td>
<td>$300,000 per year</td>
</tr>
</tbody>
</table>

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. MA494:
A manufacturer processes 100,000 kilograms of direct materials to produce two products: Product X and Product Z.

<table>
<thead>
<tr>
<th></th>
<th>Production (kg) at split-off</th>
<th>Selling price at split-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product X</td>
<td>15,000</td>
<td>$70</td>
</tr>
<tr>
<td>Product Z</td>
<td>40,000</td>
<td>$90</td>
</tr>
<tr>
<td>Waste</td>
<td>45,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

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. MA644:
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. MA642:
ZIL Inc. operates two divisions, which are treated as investment centres. Data for each division are as follows (in '000s):

<table>
<thead>
<tr>
<th></th>
<th>Division A</th>
<th>Division B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings</td>
<td>$65,000</td>
<td>$140,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$400,000</td>
<td>$850,000</td>
</tr>
</tbody>
</table>

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. MA643:
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. MA595:
OEM Co. consists of several divisions. Each division operates as a profit centre with full autonomy. Division A decided to purchase component EX1 outside the company when Division B increased the transfer price from $156 to $164 per unit.

Information for Division A with respect to component EX1 is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price from external supplier</td>
<td>$160</td>
</tr>
<tr>
<td>Annual purchases</td>
<td>10,000 units</td>
</tr>
</tbody>
</table>

Information for Division B with respect to component EX1 is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price to external customers</td>
<td>$160 per unit</td>
</tr>
<tr>
<td>Variable manufacturing cost</td>
<td>$120 per unit</td>
</tr>
<tr>
<td>Variable selling cost for sales to external customers</td>
<td>$7 per unit</td>
</tr>
<tr>
<td>Fixed manufacturing cost</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Production capacity</td>
<td>50,000 units</td>
</tr>
<tr>
<td>Capacity utilization</td>
<td>100%</td>
</tr>
</tbody>
</table>

All units of component EX1 produced by Division B can be sold in the open market.

Which of the following statements is true?

a. Division A should purchase 10,000 units of component EX1 from the outside supplier at a price of $160, because this would save the company $40,000 in costs.
b. Division B should sell 10,000 units of component EX1 to Division A at $164 each, because this would increase the company’s income by $110,000.
c. Division A should purchase 10,000 units of component EX1 from Division B because Division B would have idle capacity if Division A purchased the component externally.
d. Division A should purchase 10,000 units of component EX1 from Division B at $164 each, because this would increase the company’s income by $70,000.
25. MA630:
A company manufactures two products, Y and Q. Each product requires the following processing:

<table>
<thead>
<tr>
<th></th>
<th>Process I</th>
<th>Process II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y</td>
<td>2 hours</td>
<td>1 hour</td>
</tr>
<tr>
<td>Q</td>
<td>4 hours</td>
<td>3 hours</td>
</tr>
</tbody>
</table>

The available time for processing the two products is 100 hours per week in Process I and 90 hours per week in Process II. The CM is $5 per unit of Y and $7 per unit of Q. The company would like to maximize profits, but the time availability of these two processes have constrained the number of units that can be produced.

Applying the linear programming technique, how would the objective function be expressed?

a. Maximize CM = \( \frac{5}{3}Y + \frac{7}{7}Q \)

b. Maximize CM = \( \frac{100}{2Y + 4Q} + \frac{90}{Y + 3Q} \)

c. Maximize CM = 5Y + 7Q

d. Maximize CM = \( (2Y \times 5) + (4Q \times 7) + (4Y \times 5) + (3Q \times 7) \)
26. MA634:
Deatter Co. is a manufacturer of office furniture. It sells two products: X and Y. Cost information is listed below:

<table>
<thead>
<tr>
<th></th>
<th>Product X</th>
<th>Product Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$490</td>
<td>$560</td>
</tr>
<tr>
<td>Variable costs</td>
<td>280</td>
<td>420</td>
</tr>
<tr>
<td>Contribution</td>
<td>$210</td>
<td>$140</td>
</tr>
<tr>
<td>Machine hours to produce one unit</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Maximum unit sales per month</td>
<td>525</td>
<td>700</td>
</tr>
</tbody>
</table>

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. MA636:
A company manufactures two types of plastic-covered steel fencing: standard and heavy duty. Both types of fencing pass through the processes involving steel forming and plastic bonding.

The standard fencing sells for $15 per roll and the heavy-duty fencing sells for $20 per roll. There is an unlimited market for the heavy-duty fencing, but outlets of the standard fencing are limited to 13,000 rolls per year. The factory operations of each process are limited to 24,000 hours per year. Direct labour at $10 per hour is based on forming hours. Variable overhead is applied based on total processing hours at $1 per hour. Direct materials cost $5 and $7 per roll for standard and heavy-duty fencing, respectively. Processing hours per roll are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Forming</th>
<th>Bonding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>0.6</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Heavy</td>
<td>0.8</td>
<td>1.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>

In determining the production mix that would maximize total contribution, which one of the following would be an appropriate constraint?

a. 0.6 standard + 0.8 heavy duty £ 24,000
b. 1.0 standard + 2.0 heavy duty £ 24,000
c. 1.0 standard + 2.0 heavy duty £ 48,000
d. 15 standard + 20 heavy duty £ 13,000
28. MA800:
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

<table>
<thead>
<tr>
<th>Regression Statistics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple R</td>
<td>0.805645917</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>0.649065343</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.634443066</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Error</td>
<td>16960.32863</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>df</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>Significance F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
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<td>12768560221</td>
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b. Monthly labour hours and overhead costs

SUMMARY OUTPUT

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<td>1.807645944</td>
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c. Monthly number of units produced and distribution costs

**SUMMARY OUTPUT**

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**SUMMARY OUTPUT**

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29. MA596:
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. MA597:
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.?

a. The minimum transfer price the Concerto Division is willing to accept on sales to the Cantata Division is $620.
b. The minimum transfer price the Concerto Division is willing to accept on sales to the Cantata Division is $890.
c. The maximum transfer price the Cantata Division is willing to pay on purchases from the Concerto Division is $890.
d. Both a) and c) above.
31. MA670:
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:

<table>
<thead>
<tr>
<th>Labour cost</th>
<th>$2.00</th>
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</thead>
<tbody>
<tr>
<td>Computer, telephone, and other office overhead</td>
<td>$1.00</td>
</tr>
<tr>
<td><strong>Total cost per call</strong></td>
<td><strong>$3.00</strong></td>
</tr>
</tbody>
</table>

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

a. Market-based price of $5.50 per call  
b. Cost-based price of $3.00 per call  
c. Cost-based price of $0.00 per call  
d. Negotiated price of $4.00 per call
32. MA571:
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. MA600:
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. MA601:
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. MA602:
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. MA603:
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. MA604:
Which of the following occurs in the mature stage of the product life cycle?

a. Sales are increasing.
b. Competition is increasing.
c. Cost are increasing
d. Profits are increasing
38. MA855:
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. MA856:
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. MA857:
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. MA454:
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. MA469:
In a factory that uses a standard cost system, which of the following could be the cause of a favourable production volume variance related to fixed overhead?

a. There is a decrease in fixed overhead expenses.
b. There is an increase in fixed overhead accompanied by a decrease in variable overhead expenses.
c. The actual activity level in the factory is less than what was predicted for budgeting purposes.
d. The actual activity level in the factory is greater than what was predicted for budgeting purposes.
43. MA466:
A company had monthly sales of $612,000 with a favourable static budget variance of $50,000 and a favourable selling price variance of $10,000. If the sales volume variance was $60,000 favourable, what was the flexible budget variance?

a. $70,000 favourable  
b. $110,000 favourable  
c. $20,000 unfavourable  
d. $10,000 unfavourable
44. MA457:
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. MA645:
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. MA661:
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. MA660:
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. MA663:
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. MA851:
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. MA852:
What is strategy mapping as it relates to the balanced scorecard?

a. Identifying causal links between the four perspectives
b. Mapping the business processes that will be measured
c. The process of quantifying the four perspectives
d. Setting specific, measurable, attainable, realistic, and timely goals
51. MA853:
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. MA854:
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. MA891:
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. MA507:
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:

<table>
<thead>
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<th>B</th>
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<tbody>
<tr>
<td>Machine hours</td>
<td>50,000</td>
<td>68,000</td>
</tr>
<tr>
<td>Direct labour hours</td>
<td>45,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Direct materials cost</td>
<td>$250,000</td>
<td>$220,000</td>
</tr>
<tr>
<td>Direct labour cost</td>
<td>$300,000</td>
<td>$280,000</td>
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<tr>
<td>Manufacturing overhead cost</td>
<td>$395,000</td>
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Job 2013 was completed on May 31 with the following cost information:

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<td>Machine hours</td>
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<td>550</td>
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<tr>
<td>Direct materials cost</td>
<td>$27,000</td>
<td>$20,000</td>
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<tr>
<td>Direct labour cost</td>
<td>$31,000</td>
<td>$32,000</td>
</tr>
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</table>

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 2013?

a. $172,450  
b. $157,000  
c. $118,400  
d. $105,000
55. MA509:
Given the following information for the manufacturing operations of REW Ltd. what is the cost of goods manufactured for 20X9?

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<tr>
<th></th>
<th>Opening inventory January 1, 20X9</th>
<th>Ending inventory December 31, 20X9</th>
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<tbody>
<tr>
<td>Direct materials</td>
<td>$260,000</td>
<td>$235,000</td>
</tr>
<tr>
<td>WIP</td>
<td>$95,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>$350,000</td>
<td>$360,000</td>
</tr>
</tbody>
</table>

- 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. MA510:
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:

<table>
<thead>
<tr>
<th></th>
<th>Office Buddy</th>
<th>Travel Buddy</th>
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<tr>
<td>Expected production</td>
<td>35,000</td>
<td>115,000</td>
</tr>
<tr>
<td>Direct materials cost</td>
<td>$17.00</td>
<td>$9.25</td>
</tr>
<tr>
<td>Direct labour cost</td>
<td>$3.75</td>
<td>$4.10</td>
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</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Office Buddy</th>
<th>Travel Buddy</th>
<th>Budgeted overhead cost</th>
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</thead>
<tbody>
<tr>
<td>Assembly</td>
<td>3,000 labour hours</td>
<td>4,100 labour hours</td>
<td>$110,000</td>
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<tr>
<td>Quality assurance</td>
<td>190 inspection hours</td>
<td>150 inspection hours</td>
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</tr>
<tr>
<td>Packaging</td>
<td>125 boxes</td>
<td>265 boxes</td>
<td>$34,000</td>
</tr>
</tbody>
</table>

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. MA418:
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. MA419:
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. MA479:
The following information is available for the manufacturing operations of ABC Ltd. for the month of March:

<table>
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<tr>
<th></th>
<th>Opening inventory March 1</th>
<th>Ending inventory March 31</th>
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<tbody>
<tr>
<td>Direct materials</td>
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<td>$30,000</td>
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<tr>
<td>WIP</td>
<td>$18,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>$54,000</td>
<td>$72,000</td>
</tr>
</tbody>
</table>

What is the cost of goods sold for the month of March?

a. $290,000  
b. $236,000  
c. $230,000  
d. $218,000
60. MA497:
ABC Co. manufactures widgets and uses a standard process costing system. During production, two different types of materials are used: 100% of material XY is added at the beginning of the production process; 60% of material RT is added halfway through the production process while the remaining 40% is added at the end of process. Conversion costs are added uniformly throughout the entire production process.

For 20X9, the standard costs per equivalent unit (EU) for material XY, material RT, and conversion costs are $15, $21, and $9, respectively. Production data for May 20X9 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>WIP inventory, May 1 (95% converted)</td>
<td>5,500</td>
</tr>
<tr>
<td>Started in production</td>
<td>8,800</td>
</tr>
<tr>
<td>Completed production</td>
<td>9,100</td>
</tr>
<tr>
<td>WIP inventory, May 31 (50% converted)</td>
<td>5,000</td>
</tr>
</tbody>
</table>

What is the value of WIP inventory at May 31?

a. $160,500  
b. $183,000  
c. $207,000  
d. $225,000
61. SG607:
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.
62. SG635:
A values statement supports the mission and vision statements by identifying the core beliefs, principles, and philosophies that are intended to influence the organizational culture. Which of the following is the best example of a values statement?

a. We know it takes people with different ideas, strengths, interests, and cultural backgrounds to make our company succeed. We encourage healthy debate and differences of opinion.
b. We strive to minimize our negative impact on the environment.
c. We strive to be the global leader in the sporting goods industry with brands built on a passion for sports and a sporting lifestyle!
d. To be the preferred provider of targeted financial service in our communities based on strong customer relationships.
63. SG651:
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. SG653:
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. SG431:
Which of the following statements describes what the organization wants to become?

a. Mission statement  
b. Values statement  
c. Vision statement  
d. Overall objective
66. SG605:
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
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. SG633:
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. SG634:
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. SG454:
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. SG457:
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. SG638:
Which of the following best describes horizontal diversification?

a. Diversifying a business by acquiring a company operating in a different industry
b. Diversifying a business through the addition of new products or services that are not related to the current product but that are likely to appeal to the same target market
c. Diversifying a business through the addition of new products or services that are related to the current business in the sense that they build on the same skills and expertise
d. Increasing capacity at some point along the value chain
72. SG603:
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. SG426:
Which of the following statements is used to describe the purpose of the organization?

a. Mission statement
b. Values statement
c. Vision statement
d. Objectives statement
74. SG436:
Which one of the following statements exerts the most influence in the formation of the organizational culture?

a. Mission statement
b. Values statement
c. Vision statement
d. Objectives statement
75. SG617: Simlyn Industries (Simlyn) has recently developed a new product that should appeal to its existing customers. In order to quickly gain market acceptance, it has set the selling price slightly below that of its competitors. At the same time, it launched a marketing campaign that will feature the product during highly rated television shows.

Which of the following strategies is Simlyn using?

a. Market development strategy
b. Market penetration strategy
c. Product development strategy
d. Horizontal integration strategy
76. SG654:
Which of the following is part of a customer value proposition?

a. Description of features favoured by customers  
b. Identification of geographic markets  
c. Description of the distribution channel  
d. Identification of generic strategy
77. SG614:
Jinga Ltd. manufactures clothing. One of its successful lines, Jinga-run, is aimed at competitive female runners. The company’s CEO recently said that in addition to delivering a great product in a variety of popular colours and patterns, Jinga-run provides seamless knits that are strong, long lasting, and free of pressure points. “Our customers prefer our products because we incorporate technical-performance-enhancing features that keep them dry and supported while running.”

In this statement, the CEO described which of the following?

a. Product leadership  
b. Customer value proposition  
c. Customer intimacy  
d. Market development
78. SG639:
Which of the following best describes conglomerate diversification?

a. Diversifying the business through the addition of new products or services that are completely unrelated to the current product offering
b. Diversifying the business through the addition of new products or services that are not related to the current product but that are likely to appeal to the same target market
c. Diversifying the business through the addition of new products or services that are related to the current business in the sense that they build on the same skills and expertise
d. Increasing capacity at some point along the value chain
79. SG611:
Which of the following would be **best** described as a mission statement?

a. To make travel the best part of your life
b. Honesty, trust, and transparency in all that we do
c. Advancement through technology
d. We are here to resolve tax problems for small business owners, efficiently and effectively
80. SG636:
A mission statement is a written declaration of an entity’s primary reason for existence. It may define the entity’s high-level goals regarding customers, employees, and shareholders.

Which of the following is the best example of a mission statement?

a. To attract and attain customers with high-valued products and services and the most satisfying ownership experience in North America.
b. To be a national leader in empowering people through great software.
c. To deliver happiness to our customers, colleagues, and business partners.
d. We build our business on knowledge, respect, and flawless execution.
81. F2004:
The net present values of two mutually exclusive investment proposals both exceed zero. Which of the following best describes the decision-making rationale of a company that is not under the constraint of capital rationing?

a. Accept the proposal that has the greater IRR, because that proposal will result in a greater return.
b. Accept the proposal that has the greater profitability index, because it will return the highest NPV per dollar of investment.
c. Accept the proposal that has a shorter payback period, because the initial investment will be recovered more quickly.
d. Accept the proposal that has the highest NPV, because the goal of the company is to maximize shareholder wealth.
82. F1023:
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. F1010:
Richard Inc. has just completed its 2020 year end with net earnings of $350,000. It has paid out total dividends of $200,000. The company has 400,000 common shares that have a market price of $25 per share. What is the dividend yield for Richard’s share?

a. 57%
b. $0.50
c. $0.875
d. 2%
84. F1033:
In which of the following circumstances would it be appropriate to prepare pro forma statements?

a. To evaluate different strategic alternatives
b. To evaluate if a company has met its lending covenants
c. To evaluate the company’s return on equity (ROE) for the past three years
d. To determine management’s bonus for the past year
85. F1038:
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. F458:
Copper Mining Co. (CMC), a Canadian company, owns and operates a copper mine in a country in South America. The company has assessed that it faces high political risk. Which one of the following statements represents an example of political risk?

a. The government of the foreign country is part owner in the mine. The agreement requires that a fixed proportion of sales be remitted to the government on a monthly basis.
b. The foreign government recently changed the regulations and has significantly reduced the allowable limit of cash that can be remitted back to Canada.
c. Interest rates recently increased, requiring CMC to pay a higher interest rate on funds provided by a local foreign bank.
d. Due to adverse weather conditions, CMC’s production was affected and it was unable to meet its sales commitments.
87. F1035:
A company has $225,000 in cash flows from operations on its statement of cash flows. During the year, it invested $175,000 in plant and equipment. Scheduled debt repayments were $30,000 during the year, and the company spent $10,000 repurchasing its own shares and $20,000 on dividends.

What is the company’s free cash flow (FCF) on a levered basis?

a. $10,000  
b. $20,000  
c. $30,000  
d. $50,000
88. F1012:
Boros Ltd. has determined the cash flows to be generated from a project as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$50,000</td>
</tr>
<tr>
<td>2</td>
<td>$75,000</td>
</tr>
<tr>
<td>3</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

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. F2025:
You, a CPA, and the chief financial officer of Invest Inc. have been meeting regularly to analyze last year’s financial results. Today you are reviewing the company’s cash flow. Pertinent information is as follows:

<table>
<thead>
<tr>
<th>#</th>
<th>Item</th>
<th>Action</th>
<th>Book value or maturity value</th>
<th>Transaction value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Investment in FVTPL that are held for trading (HFT)</td>
<td>Sold</td>
<td>$13,000</td>
<td>$16,000</td>
</tr>
<tr>
<td>2</td>
<td>Shares in an associate</td>
<td>Bought</td>
<td>$21,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>3</td>
<td>Equipment (owned)</td>
<td>Sold</td>
<td>$25,000</td>
<td>$21,000</td>
</tr>
<tr>
<td>4</td>
<td>Equipment (leased)</td>
<td></td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>5</td>
<td>Investment in bonds</td>
<td>Purchased</td>
<td>$300,000</td>
<td>$285,000</td>
</tr>
</tbody>
</table>

Assuming that Invest Inc. prepares its financial statements in accordance with IFRS, what is the amount that the company should report as cash flows arising from investing activities?

a. $268,000 cash outflow  
b. $284,000 cash outflow  
c. $299,000 cash outflow  
d. $334,000 cash outflow
90. F041:
The definition of fair market value for valuation purposes includes which of the following terms:

a. Acting at arm’s length
b. Closed and restricted market
c. Lowest price available
d. Under a compulsion to act
91. F2060:
You are the assistant controller of ABC Manufacturing Corporation (ABC). Several new project proposals have been submitted by the company’s process engineers. ABC has a corporate policy of investing in projects with a risk profile similar to the overall company’s current cost of capital. The following details are available:

<table>
<thead>
<tr>
<th>Project</th>
<th>Discount rate</th>
<th>Net present value (after-tax at 25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2.4%</td>
<td>$8,200,000</td>
</tr>
<tr>
<td>B</td>
<td>7.2%</td>
<td>$5,500,000</td>
</tr>
<tr>
<td>C</td>
<td>9.6%</td>
<td>$7,200,000</td>
</tr>
<tr>
<td>D</td>
<td>12%</td>
<td>$7,800,000</td>
</tr>
</tbody>
</table>

The capital structure of ABC includes $60 million in equity at a cost of 12% and $40 million in debt with an interest cost of 8%.

Which project should be accepted?

a. Project A
b. Project B
c. Project C
d. Project D
92. F2001: Sensitivity analysis is an integral part of evaluating financial risk management policies. Which of the following statements best describes how this type of analysis is the most beneficial?

a. Sensitivity analysis identifies the financial risks the organization should pay close attention to.
b. Sensitivity analysis indicates how financial risks can be minimized.
c. Sensitivity analysis quantifies the impact on financial results arising from erroneous critical assumptions.
d. Sensitivity analysis provides insight as to the likelihood that one or more critical assumptions will be different than expected.
93. F2002:
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. F414:
Which of the following strategies is most likely to decrease the cash conversion cycle?

a. Extending longer credit terms to customers
b. Adopting a new policy of paying supplier invoices within the cash discount period
c. Deferring capital projects that do not involve working capital requirements
d. Adopting just-in-time inventory management
95. F2111:
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. F040:
A troubled company has growing liabilities and the owner does not believe it can continue to operate. You are asked to estimate the value of the company.

Which valuation approach would be most relevant to use in this circumstance?

a. Adjusted net asset
b. Capitalized cash flow
c. Liquidation
d. Discounted cash flow
97. F421:
A company is experiencing lower inventory turnover and a longer average collection period for accounts receivable. Which of the following is most likely to be associated with these symptoms?

a. Longer payment terms provided by suppliers  
b. Higher operating cash flows compared to last year  
c. Higher sales levels  
d. Lower operating productivity
98. F413:
Arts & Crafts Ltd. (ACL) has current assets of $45,000, total assets of $75,000, current liabilities of $31,500, and total liabilities of $66,000. Management is planning to reduce its investment in working capital.

Which of the following strategies is most likely to reduce ACL's investment in working capital?

a. Decrease the inventory turnover ratio from 4 times to 3 times.
b. Decrease the payables turnover from 15 times to 10 times.
c. Increase the cash conversion cycle by 10 days.
d. Decrease the receivables turnover from 20 times to 15 times.
99. F419:
Downward Inc. has budgeted sales for the second quarter of $400,000 for April, $525,000 for May, and $600,000 for June. Normally, 20% of sales are cash sales and 80% are on account. Of the sales made on account, 30% are normally collected during the month the sale is made, 50% are collected in the month following the sale, and 20% are collected in the second month following the sale. Disbursements are expected to be $380,000 in June and the opening cash balance for June is $25,000.

What is the expected cash balance or short-term borrowing balance at the end of June, assuming that there is no minimum cash balance to maintain?

a. A short-term borrowing balance of $91,000
b. Cash balance of $63,000
c. Cash balance of $167,500
d. Cash balance of $183,000
100. F037:
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.