

Core 2 Self-Assessed Entrance Exam — Questions

Management Accounting

1. Product costing

Which of the following is an invalid reason to allocate the cost of a support department, such as engineering services, to the products manufactured in an operating department?

- a. Allocating support costs is necessary to determine the net margin of the products.
- b. Allocating support costs can motivate the manager of the operating department to make judicious use of the engineering services.
- c. Allocating support costs establishes the full cost of the 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. Joint and byproduct costing

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. Process costing

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?

- \$2.59 and \$2.80
- \$1.76 and \$2.80
- \$2.59 and \$3.89
- \$2.44 and \$3.89

4. Product costing

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?

- \$1,660,000
- \$2,930,000

c. \$3,240,000

d. \$3,600,000

5. Process costing

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 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 than that of the FIFO method.

b. It would be 6,000 higher than that of the FIFO method.

c. It would be 6,000 lower than that of the FIFO method.

d. It would be the same as that of the FIFO method.

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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. Decision-making

Which of the following statements is true?

- a. A special order decision requires the analysis of viable alternatives.
- b. When making short-term decisions, only one alternative is typically considered.
- c. Quantitative factors are the most important information for making a short-term decision.
- d. A make or buy decision requires analysis of viable alternatives.

8. Special order

Which of the following statements regarding special order decisions is true?

- a. When considering whether or not to accept a special order, you need to consider whether variable costs exceed fixed costs.
- b. When considering whether or not to accept a special order, you need to consider both opportunity costs and sunk costs.
- c. When considering whether or not to accept a special order, you need to consider the costs to lease an asset versus the costs to buy it.
- d. When considering whether or not to accept a special order, you need to consider short-term and long-term impacts.

9. Production planning — Constraint

A company produces three products — A, B, and C — all using the same direct materials. The company is experiencing an unexpected spike in the demand for these products and a shortage in the supply of direct materials. The price of materials is \$16

per gram, and only 6,000 grams of material are currently available each week. Per-unit data are as follows:

	Product A	Product B	Product C
Sales price	\$120	\$180	\$190
Costs:			
Direct materials	24	64	32
Direct labour	54	28	110
Variable manufacturing overhead	6	16	8
Fixed manufacturing overhead	1	38	7

In what order should the company produce its products?

- A, C, B
- B, C, A
- B, A, C
- A, B, C

10. Qualitative analysis

Betty Scoops (Scoops) is a company that is deciding whether or not to add a new product, lipstick, to its makeup line. Existing products include lip gloss, lip liner, and a lip mask. The additional product requires new moulds to be created to produce the lipstick.

Which of the following factors would be considered a potential argument against adding lipstick as a new product?

- Scoops risks an inability to finance the moulds.
- Scoops risks alienating current customers.
- Scoops risks additional regulatory requirements.
- Scoops risks making a profit.

11. Relevant information

Candy Factory Inc. recently acquired new factory space and machinery for the sole purpose of producing one of two new products. The company needs to decide whether it should produce hard candies (HC) or gummy candies (GC). Information regarding these products is as follows:

- expenses incurred for retooling of GC (\$30,000) and HC (\$40,000) equipment

- estimated expenses to complete retooling of GC (\$10,000) equipment
- annual head office cost allocation to produce GC (\$60,000) and HC (\$100,000)
- funds spent on market research for GC (\$60,000) and HC (\$50,000)
- head office space for GC (1,500 square feet) and HC (1,200 square feet)

Which one of the following is the **MOST** significant factor in deciding which product to produce in the short term?

- a. Funds spent on market research
- b. Retooling expenses
- c. Costs from head office allocation
- d. Lease cost per square foot for the factory space

12. Relevant information

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.

13. Cost classifications

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. Cost classifications

A factory manager's salary is a:

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

15. Cost function

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. Cost function – High-low method

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. \$8,750.00
- b. \$11,142.50
- c. \$11,544.29
- d. \$13,048.75

17. Costing strategy

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 facts and data to drive better customer-focused improvements for 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. Costing strategy

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 in a factory
- c. Delivering finished goods to the customer
- d. Adding spices to a cooked meal in a restaurant

19. Costing strategy

Strategic cost management asserts that costing systems should be focused on identifying opportunities to reduce costs and helping the organization to achieve its strategic objectives. Which of the following is an important implication of these principles?

- a. Strategic cost management should not be adopted by not-for-profit organizations.

- b. There is more than one costing system that can be appropriate for various organizations.
- c. The cost of strategic planning should be kept to a minimum.
- d. Every organization should implement activity-based costing.

20. Costing strategy

After realizing that a number of financial targets would not be met for the first quarter, a management team leading a cost-cutting project in a large organization laid off direct-labour employees in order to reduce manufacturing cost. One of the unpredicted consequences of this decision has been to reduce the quality of the products sold, such that both sales and profits were significantly lower than originally anticipated.

When applying strategic cost management principles to a cost-cutting project in an organization, what should be the primary focus of the team responsible for the project?

- a. Reducing fixed costs instead of variable costs
- b. Reducing administrative and support costs
- c. Eliminating layers of management
- d. Eliminating non-value-added activities that create costs

21. Cost volume profit

A company has provided the following data:

Sales	2,000 units
Sales price	\$50/unit
Variable cost	\$30/unit
Fixed cost	\$25,000

If the variable cost per unit is decreased by 10%, the total fixed cost is increased by 20%, and all other factors remain the same, what will be the effect on operating income?

- a. It will decrease by \$5,000.
- b. It will decrease by \$1,000.
- c. It will increase by \$1,000.
- d. It will increase by \$6,000.

22. Break-even analysis

UCB has the following financial results for the month of June:

Sales	\$3,120,000
Variable costs	<u>1,920,000</u>
Contribution margin	1,200,000
Fixed costs	<u>1,380,000</u>
Profit/loss	<u>\$(180,000)</u>

A total of 200,000 units were produced and sold during the month of June. In order to break even, how many units should be produced and sold?

- a. 143,750 units
- b. 200,000 units
- c. 230,000 units
- d. 3,588,000 units

23. Break-even analysis

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. During the past year, the variable costs were \$275,000. How much were the total fixed costs for this company?

- a. \$100,003
- b. \$122,227
- c. \$222,230
- d. \$225,000

24. Target profit

J&J Co. produces alarm system keypads. The sales price of each unit is \$12.50 and the variable costs per unit are \$10. The total fixed costs are \$100,000. How many units does J&J need to sell in order to earn a profit of \$150,000?

- a. 20,000
- b. 25,000
- c. 40,000

d. 100,000

25. Production planning

A company manufactures two products, Y and Q. Each product requires the following processing:

	Process I	Process II
Y	2 hours	1 hour
Q	4 hours	3 hours

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?

- Maximize $CM = 5 / 3Y + 7 / 7Q$
- Maximize $CM = 100 / (2Y + 4Q) + 90 / (Y + 3Q)$
- Maximize $CM = 5Y + 7Q$
- Maximize $CM = (2Y \times 5) + (4Q \times 7) + (4Y \times 5) + (3Q \times 7)$

26. CM — Resource constraints

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	<u>\$ 210</u>	<u>\$ 140</u>
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. CM — Resource constraints

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:

	Forming	Bonding	Total
Standard	0.6	0.4	1.0
Heavy duty	0.8	1.2	2.0

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

- a. $0.6 \text{ standard} + 0.8 \text{ heavy duty} \leq 24,000$
- b. $1.0 \text{ standard} + 2.0 \text{ heavy duty} \leq 24,000$
- c. $1.0 \text{ standard} + 2.0 \text{ heavy duty} \leq 48,000$
- d. $15 \text{ standard} + 20 \text{ heavy duty} \geq 13,000$

28. Regression analysis

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 Squar	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

<i>Regression Statistics</i>	
Multiple R	0.741157322
R Square	0.549314175
Adjusted R Square	0.504245593
Standard Error	8279.741616
Observations	12

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	835565454.4	835565454.4	12.18840588	0.005811441
Residual	10	685541212.3	68554121.23		
Total	11	1521106667			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
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. Transfer pricing

Which of the following statements about transfer pricing is true?

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

30. Transfer pricing

Bartok Motors Inc. operates as a decentralized multidivisional company. The Sonata 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 Sonata Division's motor requirements
- can sell motors to external customers for \$890

Which of the following is the BEST answer?

- The minimum transfer price the Concerto Division is willing to accept on sales to the Sonata Division is \$620.

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

31. Transfer pricing

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	<u>1.00</u>
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?

- 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. Transfer pricing

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 when the seller sets the price.
- d. It should discourage suboptimal decisions.

33. Product life cycle

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. Pricing strategy

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. Pricing strategy

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. Pricing strategy

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. Product life cycle

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. Pro forma

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

- a. To show the financial results of achieving targets set by a company
- 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 the financial results of a retrospective analysis of a company's past performance

39. Pro forma

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 are based on estimates of the impact of a hypothetical situation.

40. Pro forma

Which of the following statements is true?

- a. A forecast is the plan, and a pro forma captures assumptions for a significant event.
- b. A budget is the plan, and a forecast captures assumptions for a significant event.
- c. A budget is the plan, and a forecast describes the expected outcomes.
- d. A budget describes the expected outcomes, and a forecast is the plan.

41. Flexible budgets

The budgeted total fixed and variable costs of the machine insertion activity centre for XYZ Corp. in Year 8 are \$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

42. Variance analysis

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. Variance analysis — Flexible budgets

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. Variance analysis

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. Performance measurement systems

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. Performance measurement systems

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. For-profit performance indicators

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. Performance measurement systems

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. Balanced Scorecard

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

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

50. Balanced Scorecard

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. Balanced Scorecard

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. Balanced Scorecard

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?

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

53. Information security and privacy

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.
- New clients 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.
- A temporary password is provided to complete any required credit searches before the 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?

- Establish a firewall between Internet and database servers.
- 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.

54. Information security and privacy

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- A temporary password is provided to complete any required credit searches before the secure random password generating device is received and activated.

Which of the following is the best specific security measure to help ensure that unauthorized individuals are unable to access the site?

- a. Keep a log of all the users who have accessed the site and compare it to a list of authorized individuals.
- b. Issue separate usernames and secure random password generating devices for every management-approved individual operating under a user account, rather than issuing them on an organization-wide basis.
- c. Require all clients to pass an Internet security test prior to accepting them as clients, and monitor their systems on an ongoing basis.
- d. Require management to sign an annual representation letter attesting to the quality of their information system security.

55. Information security and privacy — Access controls

Which of the following is an example of a physical environment control?

- a. A password is required to access the computer.
- b. To update certain software on the server, a scan of the user's retina is required to deactivate the on-screen lockout program.
- c. The server room is locked with a deadbolt lock.
- d. An automatic backup of the server occurs every night at 1 a.m.

56. Information security

An e-commerce company is evaluating the strength of its existing security controls. Which one of the following situations constitutes a weakness in a password-based computer security system?

- a. The computer security system generates new passwords for users on a periodic basis; the passwords are sets of real words rather than random streams of characters.
- b. A single password is assigned to the data entry function associated with a specific data collection file.
- c. When a user logs onto a terminal, the password is used to authenticate that user, after which the terminal stays open and active until the user signs off or does not use the system for a designated period of time, such as five or 10 minutes.
- d. The master file of passwords is stored in an encrypted manner so that only a data security administrator with the encryption key can read them.

57. Information system needs

You are a consultant hired by management to test the system conversion the company has recently implemented. In your role as a CPA consultant working on ensuring data integrity, which of the following would **LEAST** likely be a consideration in monitoring a system conversion?

- a. Review management's conversion plan and procedures to identify potential weaknesses.
- b. Examine the exception listing and issues encountered during testing to see how they were resolved. Evaluate whether the response was adequate.
- c. Compare data in reports generated right before the conversion to reports generated subsequent to the conversion.

d. Evaluate whether controls limit access to various components of the system to only authorized staff.

58. System implementation — Controls

You are a financial consultant hired by Specialty Products Ltd. to implement adequate internal controls as part of a new computerized accounting system. Management proposes to convert all data from the old accounting system to a new accounting system over the course of a weekend.

Which one of the following would you recommend?

- a. Transactions near the conversion date should be tested to ensure that they were authorized and accurately recorded.
- b. Management should ensure appropriate virus protection is installed on the server.
- c. Management should not authorize any data input during the parallel run, to ensure no omission of data.
- d. Information between the two systems should be balanced or reconciled to ensure that records have not been omitted, duplicated, or changed during the conversion.

59. Information system needs

Which of the following is an advantage of the parallel conversion method?

- a. It is inexpensive.
- b. It is easy for staff to manage.
- c. A company can rely on employees who have experience with this system from previous implementation stages to help their colleagues when full implementation takes place.
- d. It has the lowest risk of conversion errors.

60. System implementation

You are the accounting manager of ABC Inc., a mid-sized company which has 50 staff in its Toronto head office. ABC is undergoing a feasibility study for a conversion to a new system for internal payroll processing. The controller is unsure which conversion method is most suitable in this circumstance. The payroll system is a real-time system with significant implications if processing is performed incorrectly.

Which of the following conversion methods would be the **MOST** suitable in this situation?

- a. Direct cutover
- b. Phased changeover approach
- c. Modular (pilot-study) changeover
- d. Parallel conversion

Strategy and Governance

61. SGTBD

AW Industry is a proprietorship owned by Arnie White. Arnie provides graphic art services to businesses and operates from an office in downtown Hamilton, Ontario. His online delivery model allows him to offer his services across provincial and national borders. AW Industry has more work than it can handle and Arnie is considering whether to limit the type of contracts he accepts or to expand his operations. From a strategic planning perspective, what type of decision is Arnie considering?

- a. Functional
- b. Business
- c. Corporate
- d. Executive

62. Governance — Audit committee composition

An audit committee should mainly consist of which of the following?

- a. Officers of the corporation
- b. Representatives of the internal audit department and external auditors
- c. Financial management and the internal audit director
- d. Directors who are not officers of the corporation

Management Accounting

63. Strategic process budgeting

The budget is a key component of ensuring that strategy aligns with operational initiatives. Which of the following statements about the budget process is true from a non-profit perspective?

- a. The budget is approved by the community stakeholders.
- b. The budget process is the same for for-profit and not-for-profit entities.
- c. The budget is approved by the Board of Directors but it is tentative, depending on funding being received.
- d. As funding is predetermined, management just needs to focus on budgeting the expenses.

64. Strategic process KPI

The Okanagan Bee society's mission is to raise awareness of the importance of healthy bees, the benefits within the local farming community, and rehoming swarms. They do this by running a bee hotline and hosting community information sessions. Which of the following would be a suitable internal business process measure?

- a. The number of swarms rehomed
- b. The year-over-year increase in donations
- c. The number of volunteer training hours
- d. Decrease in pesticide use on local farms

65. Organizational structure

When a company is determining the right organizational structure, which of the following criteria is likely the *most* important consideration?

- a. What would make the employees happy
- b. The easiest way for a company to make decisions
- c. The organization's products and services
- d. The organization's strategic goals

66. Organizational structure

Which of the following is true about an organizational structure?

- a. It is either a sole proprietorship, a partnership, or a corporation.
- b. It is similar for most companies.
- c. It is the framework by which a group is organized.
- d. It is typically inflexible and centralized.

67. Corporate social responsibility

Mechanisms used for reporting non-compliance and identifying risk issues can include which of the following?

- a. Balanced scorecard
- b. Whistleblower hotline
- c. Code of conduct
- d. Environmental costing

68. Corporate social responsibility

Which of the following statements is true?

- a. Environmental costing is the establishment of a set of moral principles about what is acceptable social behaviour and what is not.
- b. Social ethics involves setting goals, formulating policies, and assessing and reviewing performance.
- c. Environmental accounting includes a means of assessing the organization's current environmental performance and finding opportunities for improvement.
- d. An entity's code of conduct may be used by organizations as a formal evaluation tool to assess environmental performance.

69. SWOT analysis

WSF Company, an independent, family-run grocery store chain, has been experiencing competitive pressure from the large grocery chains seeking to gain market share. Currently, WSF focuses on high-margin products such as meat and produce. WSF is considering an expansion strategy.

In a SWOT analysis, which one of the following facts would be considered an opportunity?

- a. WSF focuses on high-margin products such as meat and produce.
- b. A local bakery is seeking expansion opportunities.
- c. The business has been profitable and has retained capital.
- d. WSF has good relations with suppliers, landlords, and the town council.

70. SWOT analysis

WSF Company, an independent, family-run grocery store chain, has been experiencing competitive pressure from the large grocery chains seeking to gain market share. WSF has been very successful by focusing on high-margin products such as meat and produce. WSF is considering an expansion strategy and could open one of its stores in a new mall.

In a SWOT analysis, which one of the following facts would be considered a strength?

- a. There is space available in the new mall.
- b. Another family-owned grocery chain has suggested a merger.
- c. Residential communities near the mall have been expanding.
- d. WSF focuses on high-margin products.

71. Corporate social responsibility

Which of the following statements regarding corporate social responsibility is true?

- a. It deals with the ethical regard of all stakeholders.
- b. It is a standard mandatory by law, a requirement by a business to actively comply with high moral and ethical standards.
- c. It is an effort that acts counter to social and financial performance.

d. It is a relatively new idea developed within the last decade.

72. SGTBD

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. Steps in assessing alignment with objectives

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. Steps in assessing alignment with objectives

Which of the following statements would be part of a vision statement?

- a. Company XYZ is a globally recognized financial institution providing services now and in the future.
- b. ABC Memorial Hospital provides an appropriate mix of services to the residents of ABC region and surrounding areas.
- c. BCD Company makes, distributes, and sells the finest-quality widgets.
- d. To be the largest and most complete antique radio community site on the Internet.

75. Match action with strategy

Kyrus Games Inc. (Kyrus) employs hundreds of specialists dedicated to developing video games across various gaming consoles. Kyrus attributes its success to its talented team and has become very well known within the video game industry.

Which of the following activities **most** closely aligns with Kyrus's generic strategy?

- a. Reducing research and development costs
- b. Forming strong relationships with individual customers
- c. Offering unique products and frequent upgrades
- d. Ensuring low selling prices

76. Customer value proposition

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. Align operations with strategy

Which of the following activities is part of strategy implementation?

- a. Evaluating expected financial returns
- b. Drafting an appropriate vision statement
- c. Measuring the success or failure of the strategy
- d. Communicating with all employees

78. Key components of corporate culture

Snikop Ltd. is a unionized customer service organization that operates in a very competitive industry. The industry is regulated and prices are capped by the government. Snikop's differentiation strategy is service leadership. Marketing campaigns have always focused on the high-quality expertise of their employees. The value proposition is personal service delivered by experts. Which of the following operational decisions is best aligned with Snikop's strategy?

- a. A new policy was approved to use part-time employees whenever possible to reduce costs.
- b. The budget for professional development has been increased.
- c. The marketing budget was reallocated to social media for current client engagement.
- d. Client support staff have been reduced with the intent of increasing efficiency.

79. Policy and procedures role in performance management

Policies and procedures are an integral part of a performance management system. They provide guidance, set boundaries, and influence behaviour. Which of the following best practices is **most** important with respect to performance management?

- a. Policies should be centrally maintained.
- b. Policies and procedures should be accessible.
- c. Procedures must include ways to monitor and correct behaviour.
- d. Policies must be mapped to standards and regulations.

80. Role of a code of ethics in performance management

Which of the following statements demonstrates the role of a code of ethics in performance management?

- a. A code of ethics can help employees align their behaviour with corporate values.
- b. A code of ethics is required for all publicly accountable entities.
- c. A code of ethics sets out precise rules and the consequences for non-compliance.
- d. A code of ethics provides benchmarks and metrics to measure compliance.

Finance

81. Capital markets

Which of the following statements best describes capital markets?

- a. Secondary capital markets provide a source of liquidity for investors.
- b. Companies and governments use the secondary capital market to raise funds for their operations.
- c. Offering memorandums are used to provide details of new public issues in the capital market.
- d. The primary market is only for shares and the secondary market is only for bonds.

82. Capital structure — Financial leverage

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

83. Project financing — Disadvantages

Big Construction Projects (BCP) is considering building a toll road. A separate joint venture has been organized for this project. The project will be financed by government grants, equity from BCP and three other sponsors, and a loan from a lending syndicate. All four sponsors are parties to the joint venture.

Which of the following best describes a disadvantage of using project financing for this project?

- a. BCP will have to include all the debt related to the project on its balance sheet.
- b. BCP's debt capacity will decrease.
- c. BCP will bear all the risk relating to the construction for the project being completed on time and within budget.

d. The interest cost charged by the lender may be higher than the interest cost that BCP normally pays.

84. Project financing — What is it

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.

85. Capital budgeting

Which of the following describes some of the types of cash flows included in the capital budget analysis?

- a. Incremental contribution margin, debt principal repayments, and operating cash flows after tax
- b. Interest costs, capital expenditures, and salvage values
- c. Tax shield on capital investments, working capital investments, and dividend payments
- d. Capital expenditures, cash-basis income taxes, and working capital investments

86. Cost of accounts receivable

Which of the following is a cost of carrying accounts receivable?

- a. Not taking advantage of discounts offered
- b. Shrinkage
- c. Upfront payment of annual costs
- d. Financing cost

87. Source of financing — Leasing

Which of the following is a disadvantage of leasing for the lessee?

- a. The implied lease interest rate is less than the lessee's incremental borrowing rate.
- b. The lessee will have to pay the unguaranteed residual value of the asset at the end of the lease term.
- c. The lessee loses the tax savings associated with the capital cost allowance deductions allowed for the asset.
- d. The lessee takes on the risk of selling or disposing of the asset at the end of the lease.

88. Financially troubled entity — Informal negotiations

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.

89. Comparable returns on investments

Which one of the following types of securities would you expect to offer the highest return?

- a. Canada Savings Bonds
- b. Preferred shares
- c. Unsecured debentures
- d. Shares in private company

90. Stock-based compensation

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.

91. Valuation approach

You have been asked to value a business by an owner who intends to shut the business down due to lack of productivity. The owner still has control over the assets and is not being forced to sell them immediately. Which valuation approach should you use?

- a. Capitalized cash flow
- b. Adjusted net asset
- c. Orderly liquidation
- d. Forced liquidation

92. Discounted cash flow approach — Value of company

You are calculating the value of a company using the discounted cash flow approach. You have determined that the company has the following:

- discretionary cash flows with a PV of \$500,000
- redundant assets of \$100,000
- redundant liabilities of \$50,000
- interest-bearing debt of \$200,000
- net working capital of \$50,000
- an existing tax shield with a PV of \$100,000

What is the value of the company?

- a. \$350,000

- b. \$400,000
- c. \$450,000
- d. \$500,000

93. Tangible asset valuation — Market-based approach

You are calculating the value of a brand-name piece of equipment using the market-based approach. Which of the following is the **most** appropriate factor to consider when evaluating the comparability of recent sales transactions?

- a. Net operating income earned from using the asset
- b. Location, age, and operating condition
- c. The appropriate discount rate
- d. Obsolescence

94. Dividend policy — Dividend yield

Richard Inc. has just completed its 20X4 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%

95. Time value of money — Calculate the effective annual rate (EAR)

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%

96. Free cash flow

A company has net income of \$310,000 in the current year. The net changes in accounts receivable and accounts payable were decreases of \$330,000 and \$270,000, respectively. During the year, the company invested \$600,000 in plant and equipment.

What is its free cash flow on a levered basis?

- a. (\$350,000)
- b. (\$230,000)
- c. \$310,000
- d. \$970,000

97. Describe spin-offs and equity carve-outs

Leslie Zhan is the sole shareholder of Plastics Molding Inc. (PMI). Currently the company has two divisions and Leslie is considering selling one of the divisions to his management team. He has come to you, a CPA, to assist with this divestiture. He is looking for information on how to best complete this divestiture and is confused about spin-offs and equity carve-outs.

Which of the following statements best describes a spin-off?

- a. Net assets for the division are identified and sold to the new owners. The cash consideration paid by the buyers is received by PMI.
- b. The assets and liabilities are set up in a separate corporation, which is owned initially by Leslie. The shares of the new corporation are then sold by Leslie to the management team. The consideration paid by the
- c. The assets and liabilities are set up in a separate corporation, which is initially owned by PMI. Some portion of these shares is then sold to the management team, but control is maintained by PMI. The cash consideration paid by the buyers is received by PMI.
- d. PMI issues new shares to the management team, resulting in the management team owing a portion of PMI, but Leslie retaining control.

98. Short-term financing — Factoring

Factoring is a form of short-term financing. Which of the following best describes factoring?

- a. Factoring is a type of loan advanced to companies that is secured by the company's accounts receivable.
- b. With factoring, the company receives cash from the sale of its accounts receivables.
- c. Factoring is a type of loan where the available credit limit fluctuates based on a fixed percentage of accounts receivable outstanding.
- d. Factoring is the term used for the credit granted by suppliers.

99. International considerations (exchange rates, political risks, and international sources of capital)

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.

100. Valuation approach

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