

MULTIPLE CHOICE TEST (individual assignment)

Please state in CAPITAL LETTERS your Name and Surname in the following spaces

NAME	
SURNAME	

Available Time: 1 hour (60 minutes)

In taking multiple choice tests, you want to keep in mind the basics of test taking: read each question carefully, and have a systematic approach to the whole exam.

In the followings, two very well-known strategies for approaching multiple choice questions are reminded briefly.

Choose the Best Response

Many options in a multiple choice answer may have some truth to them. You want to identify the *best* response from the *good* responses. If you have eliminated other answer options and have narrowed it down to two, and both seem true, try to pick the answer option that is in some way better than one that is just good. Be sure to reread the question over when selecting the *best* answer. In case of doubts, state briefly your comments on your answer to help to get your point of view.

Mark only “Sure Things” First; Make three “Passes” through the Test

Go through the test first and answer all the questions for which the answers come easily. For the questions that seem more difficult to eliminate as many options as you can. This will give you a head start for your second pass. You may come across another question that gives you a clue to the one that stumped you. On your second pass spend extra time to figure out the “best” of the rest of the answer options. On your third pass, take an educated guess at the ones that are still elusive because any answer is better than no answer. There are no penalties for wrong answers.

If you read the text above, turn the page and begin your test

The written test will cover all topics shown in class as well as all content presented in the pre-class MOOCs (videos with prof. Agostino). The written test will last about 1 hour and will be composed of about 10 multiple-choice questions. Questions could be either in the form of the definition of concepts or quick exercises. In the following, examples of questions are reported. They are NOT exhaustive of the topics covered in class.

1. With respect to the “Plan & Control” Cycle, it is TRUE that:

- ☐ “Feedback” is the communication process of variance analysis to managers for supporting their decision-making
- ☐ The “Cost-Volume-Profit” analysis is a useful approach to measure the actual results achieved by the organization or by specific organizational units
- ☒ The Goals that inform the “Planning” phase refer typically to accounting-based ratios applied to the analysis of Financial Statements
- ☐ None of the previous answers

2. The Master Budget encompasses:

- ☐ Operating budgets, production budgets and capital expenditure budgets
- ☒ Operating budgets, capital expenditure budgets and financial budgets
- ☐ Budgeted income statement, budgeted cash flow statement and budgeted balance sheet
- ☐ None of the previous answers

3. In a single-product company, “advertising expenses” are:

- ☒ A direct, period, fixed cost with respect to the product
- ☐ An indirect, product, fixed cost with respect to the product
- ☐ An indirect, product, variable cost with respect to the product
- ☐ None of the previous answers

4. XYZ Ltd manufactures product WW. During November 2018, the company produced 12,000 units and incurred the following costs:

<i>Raw materials (factory)</i>	<i>31,000 €</i>
<i>Raw materials (sales)</i>	<i>8,000€</i>
<i>Labour (factory)</i>	<i>20,000 €</i>
<i>Labour (sales)</i>	<i>12,000 €</i>
<i>Rent (factory)</i>	<i>12,000 €</i>
<i>Rent (offices)</i>	<i>6,000 €</i>
<i>Equipment depreciation (factory)</i>	<i>2,000 €</i>
<i>Equipment depreciation (sales)</i>	<i>750 €</i>
<i>Expenses (marketing)</i>	<i>2,500 €</i>
<i>Expenses (administration)</i>	<i>40,000 €</i>
<i>Financial costs</i>	<i>800 €</i>

What is the impact of PERIOD costs on the overall cost per unit?

- ☐ Approximately 5.42 €u
- ☒ Approximately 5.77 €u
- ☐ Approximately 11.19 €u
- ☐ None of the previous answers

5. Which format of the Income Statement does provide relevant information for short-term decision-making?

- ☐ Income Statement by Nature
- ☐ Income Statement by Destination (or by Function)
- ☒ Income Statement by Contribution Margin
- ☐ None of the previous answers

6. If the allocation rate for “equipment depreciation” is 120€/machine hour, this means that:

- ☒ Each unit of product will incur 120€ for every hour spent on the equipment as product costs
- ☐ Each unit of product will incur 120€ for every hour spent on the equipment as period costs
- ☐ “Machine hours” is the allocation basis used to allocate indirect costs to the various activities
- ☐ None of the previous answers

7. XYZ Ltd has three product lines: X, W and Z. Existing cost information is as follows:

	X	W	Z	Total
Revenues	10,000 €	9,000 €	12,000 €	31,000 €
Variable Costs	4,500 €	7,000 €	6,000 €	17,500 €
Direct Fixed Costs	1,500 €	2,000 €	500 €	4,000 €
Indirect Fixed Costs	2,000 €	4,000 €	2,500 €	8,500 €
EBIT	2,000 €	- 4,000 €	3,000 €	1,000 €

Product W is NOT profitable, and managers are considering to dismiss this product line. How would the dismiss of product W affect EBIT?

- ☐ Increase by 4,000 €
- ☒ Decrease by 2,000 €
- ☐ There is no impact on EBIT
- ☐ None of the previous answers

8. Firm NN Ltd produces and sells two products (AA and BB), whose sale-mix is 30% AA and 70% BB. With respect to AA, the selling price is 15€/u and the variable cost is 9€/u. With respect to BB, the selling price is 20€/u, the variable cost is 12€/u. Allocated fixed costs are 6,800€ for AA and 8,000€ per BB. Financial costs are 2,000€ for AA and 3,000€ for BB. Financial revenues are 100€ for AA and 200€ for BB. Allocated Taxes are 300 for AA and 500€ for BB. If NN Ltd wants a net income = 0, how many units must it sell?

- ☒ About 2,743 units
- ☐ About 2,784 units
- ☐ About 1,500 units for AA and 1,412 units for BB
- ☐ None of the previous answers

9. The Income Statement (Profit & Loss Account)

- ☐ Can be drafted through an accrual OR a cash logic
- ☐ Provides a picture of the resources the company has at a specific point in time
- ☒ Can be drafted by aggregating costs on the basis of the activities they refer to
- ☐ None of the previous answers

10. EFG ltd produces pens. Its main goal is NET INCOME = 0. Knowing that: Fixed Costs = 140, selling price per unit = 10; variable cost per unit = 4, financial costs = 200 and taxes = 80, which quantity should be produced and sold?

- ☐ Volume = 60 units
- ☒ Volume = 70 units
- ☐ Volume = 90 units
- ☐ None of the previous answers

11. In a manufacturing company, ...

- ☐ The EBIT stated in the Profit and Loss Account (P&LA) by destination (or by function) is more than the EBIT stated in the P&LA by nature
- ☐ The EBIT stated in the Profit and Loss Account (P&LA) by destination (or by function) is less than the EBIT stated in the P&LA by nature
- ☐ The EBIT stated in the Profit and Loss Account (P&LA) by destination (or by function) is more than the EBIT stated in the P&LA by nature when the Gross Margin is equal to EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortization)
- ☒ None of the previous answers

12. Operating budgets are relevant for:

- ☒ Checking the expected difference between revenues and costs
- ☐ Checking the expected difference between cash inflows and cash outflows
- ☐ Checking the expected value for shareholders (Return on Equity – ROE)
- ☐ None of the previous answers

13. In Cost-Volume-Profit (CVP) analysis, when the number of units changes, which one of the following will remain the same?

- ☒ Contribution margin per unit
- ☐ Total contribution margin
- ☐ Total variable costs
- ☐ None of the previous answers

14. A relevant intermediate result in the Profit & Loss Account by destination (also known as by function) is

- ☐ EBITDA
- ☒ Gross Margin
- ☐ Contribution Margin
- ☐ None of the previous answers

15. The purpose of Operating Budgets is to determine

- ☐ Cash Flow Surplus or Need
- ☐ Net Profit or Loss
- ☒ EBIT
- ☐ None of the previous answers

16. The cash budgets (financial budgets) aim at foreseeing

- ☐ The surplus/need of financial resources for the next year
- ☐ The outflows for investments in assets for the next year
- ☐ The EBITDA for the next year
- ☐ None of the previous answers

17. The budget of the “Cost of Goods Sold”

- ☐ Is relevant when budgeting the Profit & Loss Account by nature
- ☐ Includes the budget of period costs
- ☐ Includes the costs of all units produced in the period
- ☐ None of the previous answers

18. EFG ltd produces pens. Its main goal is NET INCOME = 0. Knowing that: Fixed Costs = 140, selling price per unit = 10; variable cost per unit = 4, financial costs = 200 and taxes = 80, which quantity should be produced and sold?

- ☐ Volume = 60 units
- ☐ Volume = 70 units
- ☐ Volume = 90 units
- ☐ None of the previous answers

19. Which one of the following sentences on the Balance Sheet is TRUE?

- ☐ The amount of TOTAL NON CURRENT ASSETS is always equal to the TOTAL amount of NON CURRENT LIABILITIES;
- ☐ The amount of FIXED ASSETS is always equal to the TOTAL LIABILITIES;
- ☐ EQUITY = TOTAL ASSETS – THIRD PART LIABILITIES;
- ☐ None of the above.

20. Company A issues new capital for 10,000 k€ in 2018. Consider the following data:

- Share premium reserve = 100,000 k€
- Revaluation reserve = 200,000 k€
- Other Reserves = 400,000 k€
- Retained Earnings = 300,000 k€
- Net Earnings 2017 = 400,000 k€

How does this decision impact its financial statements?

- ☐ Equity increases of 10,000 k€
- ☐ Equity decreases for 10,000 k€
- ☐ Other reserves increase of 10,000 k€
- ☐ None of the above.

21. Company B has an equipment, bought on January 1st, 2013. It has an 8 years-long useful life and a value of 60,000 k€ in the Balance Sheet of 2017. Considering that:

- From 2013 to 2017, no re-valuation nor impairment occurred;
- From 2013 to 2017 the equipment was amortized straight-line;
- On January 1st, 2018, the asset was re-evaluated: its value increases for 6,000 k€

Therefore:

- ☐ Firm B bought the equipment on 1st January 2013 for 100,000 k€
- ☐ Probably, an impairment test occurred and the item evaluated at 66.000 k€
- ☒ The item will be depreciated in the next years;
- ☐ None of the above.

22. Accounting-based indicators:

- ☐ Are always in the form of ratio indicators;
- ☐ Can be indicators about time, quality or productivity;
- ☒ Are based on financial statements;
- ☐ None of the above.

23. According to the Financial Leverage formula:

- ☐ To increase ROE, a company should always try to increase D/E;
- ☐ If $ROI - r < 0$ and D increases, ROE increases;
- ☒ The capital structure of the company has an amplifying effect;
- ☐ None of the above.

24. Considering the following data (in k€) from the Balance Sheet of Company C, calculate the Net Working Capital (Operating Working Capital).

CURRENT ASSETS	26,200
Cash and Cash Equivalent	7,000
Other Fin. Activities held for Trading	2,000
Other Fin. Activities available for sale	200
Trade & Other Receivables	10,000
Inventories	5,000
Other Current Assets	2,000
NON CURRENT ASSETS	73,800
CURRENT LIABILITIES	30,000
Short-term Debts	17,000
Bonds	10,000
Trade Payables	3,000
NON CURRENT LIABILITIES	40,000
EQUITY	30,000
Share Capital	15,000
Reserves	10,000
Incomes brought forward	2,500
Income of the period	2,500

- ☒ 12,000 k€
- ☐ 26,200 k€
- ☐ 30,000 k€
- ☐ It cannot be calculated with the available data.

25. Knowing the following data, compute the Pay-out Ratio in the year 2017:

<i>Company A (data in mln €)</i>	<i>2017</i>	<i>2016</i>
<i>EBIT</i>	10,000	7,000
<i>Consolidated Net Income</i>	6,000	4,500
<i>Dividends paid to the parent company's shareholders</i>	2,000	3,000
<i>Dividends paid to minorities</i>	90	80

- ☐ Pay-out Ratio 2017 = 0.67
- ☐ Pay-out Ratio 2017 = 0.69
- ☒ Pay-out Ratio 2017 = 0.46
- ☐ Pay-out Ratio 2017 = 0.35

26. Which one of the following sentences about “Complete Allocation” of Corporate Costs is TRUE?

- ☐ Complete Allocation is based on a proportional division: therefore, it grants to respect the specific responsibility principle;
- ☐ Complete allocation is usually cheaper and easier to be performed than Partial or No allocation;
- ☒ It can make explicit that corporate resources impact on Business Units performances;
- ☐ None of the above.

27. Resource A costs 50,000 € and has a capacity of 1,920 h/year and it is shared among 5 Business Units. Knowing the following actual data, calculate the allocation rate (hourly fee):

<i>Usage per Business Unit (BU)</i>	<i>h/year</i>
<i>BU A</i>	720
<i>BU B</i>	240
<i>BU C</i>	120
<i>BU D</i>	120
<i>BU E</i>	60

- ☒ about 26 €/h
- ☐ about 476,2 €/h
- ☐ about 1,52 €/h
- ☐ BU A=69,4 €/h; BU B = 208,33; BU C=416,7 €/h; BU D = 416,7 €/h; BU E=833,3 €/h

28. In which of the following cases, the transfer price based on the market is difficult to apply:

- ☐ When internal negotiation costs are likely to be high
- ☐ When the selling units have a shortage of production capacity
- ☒ When the products/services involved in the transactions are characterized by a market with unstable prices
- ☐ When the transfer price has fiscal implications

29. Business Unit XYZ decides to buy from an external supplier 1,000 sensors (\$75/unit) that are manufactured also internally at Division ABC, which has sufficient capacity available and produces with a variable cost per unit of \$50/u and fixed overhead of \$30. Which of the following statements is TRUE:

- ☐ Division ABC should improve its efficiency since at present is not attractive for internal transactions
- ☐ By this transaction, the company will lose \$ 25.000
- ☐ By this transaction, both the Business Unit XYZ and the company will save \$ 5,000
- ☐ None of the above

30. Which Key Performance Indicators (KPIs) MUST be included in the “financial” section of a Balanced Scorecard?

- ☐ EBITDA margin, ROE and ROA
- ☐ EBITDA margin, RI and EVA
- ☐ ROE and EVA
- ☐ Indicators should be tailored to the purpose of the balanced scorecard

31. Backbone of the performance management system (PMS) at the corporate level is:

- ☐ Accounting based indicators (ROI, RI, EVA) to ensure completeness, and measurability
- ☐ Value drivers to ensure completeness, measurability and long-term orientation
- ☐ Accounting based indicators (ROI, RI, EVA) to ensure completeness and long-term orientation
- ☐ Value-based indicators (E, EV) to ensure completeness and long-term orientation

32. A Cost Center is:

- ☐ An organizational unit whose manager has control over costs, but not over revenues or investment funds; resource consumption is related to the volume of production
- ☐ An organizational unit whose manager has control over costs, but not over revenues or investment funds; resource consumption is not related to the volume of production
- ☐ An organizational unit whose manager has control over revenues, but not over costs or investment funds
- ☐ An organizational unit whose manager has control over both costs and revenues, but no control over investment funds