MIDSEMESTER EXAM
FINANCE 510

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Circle or complete the correct answer for each question. There is only ONE correct answer for each question; when in doubt, please select the response that BEST answers the question.

You have far more than an entire class period (2 ½ hours) to complete the exam, although most of you likely will find you need only 1 to 1 ½ hours to do so.

1. Company B, Inc., is a startup business that wants to sell prepackaged meal kits to retail customers. The kits come with recipes and related instructions allowing consumers to easily make their own home cooked meals.

   The company begins its operations on January 3, 2022, with the following transactions:
   Its two owners each invest $100,000 cash in the company
   The company sets the price of its individual meal kits at $20 each. It also decides to offer annual meal kit subscriptions at $1200. In return for subscribing, customers will receive 10 meal kits per month.
   On January 10, the company incurs the following expenditures
   It buys $25,000 worth of office equipment
   It buys $25,000 worth of packaging and shipping equipment. The equipment has a useful life of 2 years, 1 month and no salvage value.
   It enters into a two-year lease on office space, rent $24,000/year, each year payable in advance.
   It borrows $100,000 from a local bank for working capital. The loan is payable in full, three years. Interest is payable at 10% of the unpaid loan balance at the end of each year
   It purchases 10,000 prepackaged meal kits from a wholesaler for $5 each

   During the months of January and February, the company sells 2000 individual meal kits and 200 annual subscriptions. 600 of the individual meal kits and all of the subscriptions are sold for cash. 1400 of the individual meal kits are sold to another retailer on account, the entire balance to be paid March 15. The individual meal kits are delivered during the month of February, and the appropriate share of the subscription kits in January and February. The company also spends an additional $20,000 on expenditures indirectly related to the marketing, sale and delivery of the kits and for general business operations. Also, at the end of February, the company pays $2000 to each of its owners as a share of Company B's profits.

   Based on the above information, for the first two months of 2022:

   What is Company B's sales, cost of sales and gross margin?
   Solution: Cash sales: (600 x 20) + (200 x 1200) = 12000 + 240,000 = $ 252,000
   Total sales: (2000 x 20) + (200 x 1200) = $ 280,000

Cost of Sales:
purchase of meal kits (10000 x 5) = 50,0000
packing expense: = 25,000

Total = 75,000

Gross margin = 280,000 – 75,000 = 205,000

Total Office lease = $24,000

What is Company B's lease expense?
The lease expense for first two months = 24000 x 2/12 = $4000

What is Company B's net income?

The company B's Net income = Gross Margin – Indirect expense = 205,000 – 20,000 = 185,000

How much cash does the Company B have on hand as of February 28, 2022?
Cash Balance Calculations:

Investment in cash	**- 100,000**
Less: Purchase of office equipment's	**- 25,000**
Packaging expenses paid	**- 25,000**
Lease payment	**- 24000**
Add: Bank Loan	**- 100,000**
Less: Purchase from wholesaler	**-50,000**
Cash Sales	**- 252,000**
Indirect Expenses paid	**- 20,000**
Share of profit paid	**- 2000**
Cash balance as on 28.02.2022.	**- 306,000**

What is the value of Company B's equity account on its 2/28/2022 Balance Sheet?

Balance sheet as on 28/2/2022:

Equity and Liabilities Amount
Equity = 1,00,000
Surplus Profit = (185,000-2000)= 183,000
Bank Loan = 100,000
Total = 3,83,000
Assets

Office Equipment's = 25,000
Lease paid in advance = 24,000
Cash = 306,000
Debtors (1400 x 20) = 28000

Total = 383,000

What is the total value of Company B's current assets as of 2/28/2022?

Current Assets = Debtors + Cash+ Lease paid in advance = 28000+306,000+ 24,000= 358,000

What is the value of Company B's total assets, total liabilities and total owner's equity as of 2/28/2022?

Total Assets = 383,000 (as calculated in Balance sheet)

Total Liabilities = 383,000(as calculated in Balance sheet)

Owner's Equity = Equity + Reserve Profit = 1,00,000 + 183,000= 2,83,000

What is the value of Company B's inventory as of 2/28/2022 using the FIFO method of inventory costing? Using the LIFO method of inventory costing?

Closing Inventory = 10000 - 2000- (200x10) = 6000 kits

Using FIFO = 6000 x 5 = 30000

Using LIFO = 6000 x 10= 60,000

What are Company B's net cash flows from operations, investing and financing during January and February 2002?

Cash Flow statement:

Activities	**Amount**	
Net profit	**- 183,000**	
Less: Increase in Current Assets (except cash)		
Debtors	**- 28000**	
Lease in advance	**-24000**	
Net Cash flow from Operating Activity		**131,000**
Investing Activity:		
Purchase of Office Equipment's		**-25,000**
Net Cash used in Investing activity		**-25,000**
Financing Activity:		
Equity issued	**1,00,000**	
Bank Loan taken	**100,000**	
Net cash flow from financing activity		**200,000**
Net Increase in Cash	**306,000**	

2. Information about management, key employee and director compensation would least likely be found in the:
    a. Auditors' report
    b. Proxy statement
    c. Notes to the financial statements
    d. SEC Form 10-Q
3. An analyst has gathered the following information about a US company's transaction: On February 1, 2021, it purchased 100,000 widgets from a British supplier at a cost of two British pounds per unit. The invoice is payable in full 60 days from the invoice date. The Pound/Dollar exchange rate is 1.35 on February 1, 1.40 on March 1, and 1.30 on April 1. How would the company's internal accountants record the transaction in the company's internal books

   At the time the invoice is signed?

   No. Of widgets*cost per widget*Exchange rate on Feb1
   = 100000*2*1.35
   = $270,000
   Inventory A/c Dr. : $270,000
   To Supplier A/c. : $270,000

   If the invoice is paid in full on March 1, 2021

   if Invoice paid on march 1, rate = 1.40
   value paid = 100000*2*1.4
   = $280,000
   Foreign exch loss = 270000-280000 = -10000

Supplier A/C Dr	**$270,000**	
Foreign Exchage loss Dr	**$10,000**	
To bank		**$280,000**

   If the invoice is paid on April 1, 2021

   value paid = 100000*2*1.3
   = $260,000
   Foreign exchange Gain = 270000-260000 = 10000

Supplier A/C Dr	**$270,000**	
Foreign Exchage loss Dr		**$10,000**

To bank		**$260,000**

4. On January 3, 2022, ParentCo purchases 30% of the outstanding shares of KidCo for $600,000. During 2022 KidCo reports the following results:

Net Sales	$2 million
All Expenses	$1 million

   What is the value of ParentCo's investment in KidCo on ParentCo's 2022 financial statements?
   Since the stake is 30% , it is an Associate and only Net Income i.e. difference b/w Net Sales & All Expenses * Pro rata share taken = 1mn. * 30% = 0.3 mn.

   How would your answer change, if at all, if ParentCo had instead acquired 80% of KidCo's stock?
   Since the stake is 80% it is a Subsidiary and total Net Sales & All Expenses taken 2 mn. & 1mn respectively

5. HVG, LLC signed a lease with and paid $12,000 cash to a landlord on December 31, 2020. The payment represents $4,000 for a security deposit and the rest for the first two months of rent for January and February 2021. The *most likely* effect of this transaction on HVG's general ledger as of 12/31/2020 is:
   a. No net change in total assets
   b. A decrease in total assets of $4,000.
   c. A decrease in total assets of $8,000.
   d. A decrease in total assets of $12,000.

6. On April 30, 2021, Pinto Products received from a Customer Inc a cash payment of $300,000, representing a deposit on production and delivery of a $1,000,000 machine, which will cost Pinto $600,000 to manufacture and deliver to Customer, to be delivered by Pinto to Customer on or before August 31, 2021. Payment for the machine is due in full on delivery. This transaction would *most likely* result in which of the following as of 4/30/2021?
   a. No effect on Pinto's liabilities or assets
   b. An increase in Pinto's total assets of $300,000.
   c. An increase in Pinto's total liabilities of $1,000,000.
   d. An increase in Pinto's sales of $1,000,000.

7. Assuming the same facts in Question 6, This transaction would *most likely* result in which of the following as of 8/31/2021?
   a. An increase in Customer's assets of $1,000,000
   b. No effect on Customer's assets or liabilities
   c. A decrease in Customer's liabilities of $300,000
   d. An increase in Customer's assets of $700,000
8. The assumption that a company will continue to operate for the foreseeable future is known as:
   a. Accrual accounting.
   b. Balancing of qualitative characteristics.
   c. Going concern.

d. Matching principle.
e. Best Interests principle.
f. Reasonable actor principle

9. Valuing assets on financial statements at the amount of cash or other fair value paid for them at the time of the assets' acquisition most closely describes which measurement of financial statement elements?
   a. Current cost.
   b. Historical cost.
   c. Net Realizable Value.
   d. Net Present Value. e. Lower of Cost or Market.

10. Which of the below listed accounting elements presented in financial statements is *most closely* related to a company's annual performance?
    a. Current assets.
    b. Expenses.
    c. Liabilities.
    d. Owners' Equity.

11. Denali, Ltd. Shows the following information on its latest income statement:

Sales	$4,000,000
Returns	$100,000
Cost of Sales	$3,000,000
Other Operating Expenses	$500,000
Interest Expense	$100,000
Depreciation Expense	$100,000
Income Taxes	$100,000

Denali has 100,000 shares of common stock outstanding throughout the year, with no complex capital structure or potential dilutive securities in its treasury.

Denali's Gross Margin is **$1,000,000**

12. Using the same information as in Question 11, Denali's EBITDA is *closest* to $1,000,000

13. Using the Same information as in Question 11, Denali's Net Revenue or Net Income is *closest* to $200,000

14. Using the same information as in question 11, Denali's Net Cash Flows from Operations is *closest* to $300,000

15.Using the same information as in Question 11, and assuming Denali's Net Income is $500,000, Denali's Basic EPS is $100,000

16. You are analyzing a partial set of financial information for Fairplay, Inc. for its FY 2019, and you are presented with the following information:

Credit Sales	$1,000,000
Cash Sales	$300,000
Sales Returns	$100,000
Warranty Expense	$100,000
Cost of Sales	$100,000
Collections on Credit Sales	$800,000

How much would Fairplay report as Sales on its FY 2019 income statement?

$900,000

17. Using the same information as in Question 16, what is Fairplay's gross margin for FY 2017?

$800,000

18. On January 3, 2021, Ledge Road Construction Co, Inc. entered into a contract to build a highway extension for the State of Florida. As of December 31, 2021, the following information is available for this contract:

Contract Price	$10,000,000
Anticipated Total Costs	$8,000,000
Costs incurred during 2021	$2,000,000

Under the appropriate method for accounting for revenue and expenses of long-term contracts, how much will the company record as revenue in 2021?

a. $8,000,000
b. $2,500,000
c. $10,000,000
d. $0

19. Using the same information as in Question 18, how much will the company record as expenses in 2021?

a. $1,000,000
b. $1,250,000
c. $2,000,000
d. $200,000

20. In 2002, Argo, Co. bought 10 acres of commercial zoned land for $2,000,000. It sold the land to a developer in 2021 for $5,000,000 on July 1, 2021. The developer paid Argo $1,000,000 at the closing of the sale and gave Argo a promissory note and mortgage for the remaining $4,000,000, plus 5% interest, payable annually at the end of each calendar year. The note is due in full on 12/31/2026. How much profit will Argo report on the sale for 2021, if Argo uses the installment method to account for this sale?

$600,000

21. How much interest income will Argo report on its financial statements for FY 2021?

interest income = principal amount x interest rate = 10,50,000
interest amount = $50,000

22. Using the same information as in Question 20, how much profit will Argo report on the sale for 2021, if Argo uses the cost recovery method to account for this sale?
$3,000,000

23. Each of the following is a current asset except
    a. Cash
    b. Goodwill
    c. Inventory
    d. Prepaid Expenses for the fiscal year
24. A transaction where a company receives money from customers for products to be delivered in the future should be recorded as
    a. Revenue and an asset
    b. An asset and a liability
    c. Revenue and a liability
    d. An asset, revenue and a liability
25. When a company pays rent in advance, its balance sheet will reflect a reduction in
    a. Both assets and liabilities
    b. Assets and retained earnings
    c. One category of assets and an increase in another category of assets
    d. Neither any asset or liability

26. The account "Retained Earnings" is a component of
    a. Assets
    b. Liabilities
    c. Owners' Equity
    d. Revenue
27. An analyst concerned with a company's ability to pay its short-term obligations is *most likely* to calculate the company's
    a. Current ratio
    b. Debt to equity ratio
    c. Leverage ratio
    d. Cash flow available to the firm
28. The most stringent test of a company's liquidity is its
    a. Cash Ratio

b. Quick Ratio
c. Current Ratio
d. Acid Test Ratio

29. The sale by a company of a building for cash would be classified as what type of activity on a cash flow statement?
    a. Cash from Operating
    b. Cash from Investing
    c. Cash from Financing
    d. Cash to Financing
30. The sale by a company of a building in return for the purchaser's promissory note would be classified as what type of activity on a cash flow statement?
    a. Cash from Operating
    b. Cash from Investing
    c. Cash from Financing
    d. Cash to Financing
    e. None of the above
31. Red River Inc. reported total gross revenues of $100 million and total expenses of $80 million for its most recent fiscal year. If the company's accounts receivable also increased during the FY by $10 million, how much cash did the company receive from its customers?
    $90 Million

32. i Green River Inc. reported cost of goods sold for its most recent FY of $80 million, an increase in inventory of $5 million, and an increase in accounts payable of $2 million. The cash paid by the company to its suppliers is *most likely*
    a. $73 million
    b. $77 million
    c. $83 million
    d. $87 million
33. You have the following information for Star, Inc. for its 2020 FY

Net Income	$20 million
Depreciation	$2 million
Accounts receivable	$3 million decrease from the previous FY
Inventory	$4 million increase from the previous FY
Accounts payable	$5 million increase from the previous FY

    What is Star's operating cash flow for FY 2020?
    $26 Million

34. A company issues $10 million of bonds at face value. At the time of issue the company will record a
    a. Cash inflow from investing activities
    b. Cash inflow from operating activities
    c. Cash inflow from financing activities
35. Interest paid is considered an operating cash outflow
    a. Under GAAP but may also be considered an investing outflow under IFRS
    b. Under IFRS but may also be considered an investing outflow under GAAP
    c. Under both GAAP and IFRS
    d. Under neither GAAP or IFRS
36. selected year-end financial statement data for Workhard LLC are shown below.
    $ millions

Beginning shareholders' equity	475
Ending shareholders' equity	493
Unrealized gain on available-for-sale securities	5
Unrealized loss on derivatives accounted for as hedges	(3)
Foreign currency translation gain on consolidation	2
Dividends paid	1
Net income	15

Workhard's comprehensive income for the year is:

$25 Million

37. Elodia Corp is a calendar year financial reporting entity. On December 31, 2021, it had 400,000 units of its principal product for sale to customers on hand. The cost to the company for each unit is $5.

During 2022, Elodia purchases additional goods for sale as follows:

March 31	200,000 units at $6 each
June 30	600,000 units at $8 each
September 30	400,000 units at $4 each
December 1	400,000 units at $5 each

During 2022, the company sells various units of its product, as follows:

All of the units on hand as of 12/31/2021
Half of the units purchased in March
400,000 of the units purchased in June
100,000 of the units purchased in September
200,000 of the units purchased in December

What is the value of Elodia's goods available for sale during 2022
(200,000x6) + (600,000x8) + (400,000x4) + (400,000x5) = $9.6 Million
What is the value of Elodia's inventory and cost of goods sold as of 12/31/2022 using the following inventory costing methods Specific Identification?

Ending inventory $4,300,000
Cost of goods sold $7,300,000

FIFO?
FIFO = cost of the oldest inventory x cost by the amount of inventory sold
1.2mil units x $5 = $6 million

LIFO?
LIFO = cost of the most recent inventory x amount of inventory sold
200,000 x 5$ = 1million $

Weighted Average?
weighted average = (200,000x6) + (600,000x8) + (400,000x4) + (400,000x5) divided by 16,00,000 = $6