FIN 510
Comprehensive Final Exam

PLEASE SELECT/FILL IN THE BEST ANSWER FOR EACH QUESTION. THERE IS ONLY ONE BEST ANSWER FOR EACH QUESTION

1. A company's profitability is ***BEST*** evaluated by examining a company's:
   a. Balance Sheet
   b. Income Statement
   c. Cash Flow Statement
   d. Statement of Changes in Equity

2. Accounting policies, methods, estimates and procedures used in preparing financial statements are ***MOST LIKELY*** found in the:
   a. Auditor's Report
   b. Management Disclosures and Analysis
   c. Notes to the Financial Statements
   d. Annual Report

Questions 3-5 are with reference to the following information:

ABCorp shows the following sales related figures for its fiscal/calendar year 2020:

Gross Revenues	$3600
Credit Sales (Payable in 2021)	600
Costs of Items Sold (All units cost the same amount)	1800
Returns (all returns cleaned at a cost of $100, and restocked for sale in 2021)	200
Defective Items Returned & Destroyed; New Items Sent to Customers at no Charge (at Cost)	200
Inventory January 1, 2020	2600
Inventory Acquired During 2020	2600
Inventory Acquired on Account, Payable in 2021	500
Spoliage During 2020	200

Assuming no other information is available or relevant, what is the DOLLAR VALUE of ABCorp'sl:

3. Inventory on December 31, 2020?
   $4100
4. Gross Margin for FY 2020?
   $1800
5. Net Cash Flows from Operations for FY 2020?
   $900

Questions 6-9 are with reference to the following information:

Amco, Inc. manufactures stereo turntables in the United States. It reports its financial information on a calendar year basis. For its FY 2015, it shows the following:

Property Plant and Equipment (PP&E) January 1	-0-
Purchases of PP&E on July 1, 2015	$3,100,000
Purchases of Land During FY 2015	4,000,000
Useful Life of Depreciable Long term Assets	30 Years
Salvage Value of PP&E	100,000
Salvage Value of Land	0

Depreciation Method Used	Straight Line

Assuming no other information is available or relevant, what is the DOLLAR VALUE of Amco's

6. Depreciation expense for FY 2020?
   $500,000
7. Accumulated Depreciation as of 12/31/2020?
   $600,000
8. Depreciation Expense for FY 2020, assuming Amco uses the double declining balance method of depreciation?
   Approx $176k
9. Accumulated Depreciation as of 12/31/2020, assuming Amco uses the double declining balance method of depreciation?
   Approx $935K

Questions 10-14 are with reference to the following information:

Amco, Inc. manufactures stereo turntables in the United States. It reports its financial information on a calendar year basis. For its FY 2022 it shows the following per unit information for its turntables:

Inventory January 1	-0-
Components and Materials Purchased FY 2022	$125
Transportation of Components to Amco's Factory	35
Insurance on Components and Materials Pending Delivery	10
Labor to Assemble Components into Finished Turntables	90
Office Overhead Related to Manufacture	30
Marketing Costs	80
Storage of Materials and Work in Process	10
Storage of Finished Goods	10
Security & Insurance for Finished Goods	10
Amco's Target Sales Price	500
Inventory Costing Method Used	Specific Identification

There are no sales during FY 2020. There is no work in process as of 12/31/2020.
Assuming no other information is available or relevant, what is the DOLLAR VALUE of Amco's

10. Per unit inventory as of 12/31/2020?
    $300

11. Assuming the above and that Amco determines as of December 31 there is insufficient demand for its turntables and sets a new target sales price of $310 per unit, what is the DOLLAR VALUE of Amco's per unit inventory as of 12/31/2022?
    $210

12. Assuming the above and that Amco determines as of December 31 there is insufficient demand for its turntables and sets a new target sales price of $280 per unit, what is the DOLLAR VALUE of Amco's per unit inventory as of 12/31/2022?
    $280

13. Assuming the above, that Amco has determined as of December 31, 2022 there is insufficient demand for its turntables and sets a new target sales price of $250 per unit, and that during FY 2021, Amco has determined that demand for turntables has increased and sets a new target per unit sales price of $400, what will the likely DOLLAR VALUE of Amco's per unit inventory be as of 12/31/2023?

$250

14. What would the answer to Question 13 be (also assuming US dollars and Euros are trading at parity) if Amco were headquartered and operating instead in Hamburg, Germany?
$300
15. Which of the following is ***MOST LIKELY*** classified as an operating activity of a business?
    a. Issuance of bonds
    b. Acquisition of a competitor
    c. Sale of an obsolete building
    d. Sale of an automobile by Wolkswagen

16. Which represents a residual claim against a company?
    a. Equity
    b. Asset
    c. Liability
    d. Expense

17. TRR Ltd sold some of its products to customers on December 30, 2021. Total sales price was $8,000; payment for the products is due 30 days from delivery. TRR borrowed $8000 in 2021 to pay for for the products sold. The ***MOST LIKELY*** net change in TRR's total assets as of December 31, 2021 as a result of this transaction is:
Zero

18. Cash received by a company prior to its delivery of goods to a customer is ***MOST LIKELY*** recorded when received as:
    a. Deferred revenue, an asset
    b. Deferred revenue, a liability
    c. Deferred revenue, an income statement item
    d. Sales, an income statement item

19. If a company records fictitious income, it most likely would try to cover up its fraud by:
    a. Decreasing assets
    b. Increasing expenses
    c. Increasing liabilities
    d. Creating one or more fictitious asset

20. Which of the following elements of financial statements is most closely related to the measurement of a company's current financial position?
    a. Revenues
    b. Equity
    c. Liabilities
    d. Assets
    e. None of the above

21. Assuming total asset turnover is revenue divided by average total assets, impairment write downs of a company's long-lived assets will ***MOST LIKELY*** result in an increase in the company's:
    a. Debt to equity ratio
    b. Total asset turnover
    c. Both total asset turnover and debt to equity ratio

d. Neither total asset turnover and debt to equity ratio

22. An investor concerned about a company's long term solvency would ***MOST LIKELY*** examine the company's:
    a. Return on equity
    b. Total asset turnover
    c. Inventory turnover
    d. Debt to equity ratio

23. A conversion of a face value $1 million convertible bond for $1 million of common stock would ***MOST LIKELY*** be:
    a. Reported as a $1 million financing inflow
    b. Reported as a $1 million financing outflow
    c. Reported as a $1 million investing inflow
    d. Reported as a $1 million investing outflow
    e. None of the above

24. An analyst most likely would use which of the following ratios to determine a company's ability to meet its short term obligations?
    a. Current Ratio
    b. Payables Turnover
    c. Gross Margin

25. An analyst observes a decrease in a company's inventory turnover. Which of the following ***MOST LIKELY*** explains this trend?
    a. The company wrote off a large amount of obsolete inventory at the beginning of the year.
    b. The company mistakenly placed duplicate orders for inventory with suppliers.
    c. The company installed a new inventory management system.

26. For the upcoming fiscal year, Brown Corp. wants to match the industry average of 15 average days sales outstanding. Credit sales for FY 2022 were $300 million and averageaccounts receivable at year end were $15.65 million; Brown projects credit sales to increase to $390 million in the coming fiscal year.
    TO the nearest whole number, what is Brown's average days sales outstanding for 2022?
    19 days rounded to nearest whole number is 15 days

    In order to decrease the collection period to Brown's goal, the change in average accounts receivable at the end of FY 2023 that must occur is ***CLOSEST TO:***
    $+0.37M

27. All else being equal, which of the following would decrease ROA?
    a. A decrease in the effective tax rate
    b. A decrease in interest expense
    c. An increase in average assets
    d. An increase in liabilities

28. An analyst working for a potential creditor would ***MOST LIKELY*** consider a decrease in which of the following ratios to be positive news?
    a. Interest Coverage
    b. Debt to total assets
    c. ROA

29. Mustard Seed LLC recently purchased inventory for $100 million and spent $5 million on off-site storage prior to selling the goods to customers? Mustard Seed charged $_________ to cost of goods sold in respect of this inventory.
    $100 Million

30. Like many technology companies, Cinnamon Corp. operates in an environment of steadily declining prices. It's reported profits will tend to be highest if it accounts for inventory using:
    a. FIFO
    b. LIFO
    c. Weighted Average Cost
    d. Specific Identification

31. Jobvo, Inc. purchased a new machine for its plant, incurring the following costs:

Purchase Price	$12,980
Freight and Insurance	1200
Installation	700
Testing	100
Maintenance Staff Training	500

At what value should the company record the machine on its balance sheet?
$15,480

32. A company borrows $500 million from a bank to finance the construction of its headquarters building. The terms of the loan are as follows: term of the loan is three years; annual interest is 14%; annual payment of simple interest only, and principal payable at the end of the term. It takes two years to build the building, during which time the company earns $10 million on the unspent loan proceeds. How much of the interest can be capitalized under
    GAAP? **$130 Million**
    IFRS? **$117 Million**

33. Which of the following depreciation methods is ***MOST LIKELY*** to evenly distribute the cost of an asset over its useful life?
    a. Straight line
    b. Units of production
    c. Double declining balance

34. Crocodile Corp. sells an intangible asset. Its historical cost is $12 million, with accumulated depreciation at the time of sale of $2 million. The company reports a $3.2 million loss on the sale of the asset.
    What was the asset's likely sales price?
    $6.8 Million

35. Which of the following is ***MOST LIKELY*** to differentiate property held for investment from PP&E?
   a. The property is intangible
   b. The property is tangible
   c. The property earns rent
   d. The property is depreciated
   e. The property is amortized

36. Cavalier Copper shows on its most recent balance sheet $840 million in long term loans, $320 million in capital stock, $100 million in retained earnings, $100 million in net profit on its income statement and $20 million in dividends payable to stockholders. It has 1,000,000 shares outstanding with a current market value of $100/share. Assuming no other information is available or relevant, the company's total assets are **$1340**, its EPS is **$100** and its PE Ratio is **1**

37. Using the same information as in question #36 and assuming the company discloses an additional $100 million in long term operating lease commitments with a net present value of $60 million, the company's total debt to total capital ratio should be **64**

38. An audit of a company's financial statements is ***MOST LIKELY*** intended to:
   a. Detect fraud.
   b. Reveal misstatements in income or expenses.
   c. Assure that the financial information is presented fairly and consistently.

39. All other things being equal, which of the following, relative to a company's competitors, is an indication that a company is recognizing revenue prematurely?
   a. Asset turnover is decreasing.
   b. Receivables turnover is increasing
   c. Days sales outstanding is increasing.
   d. Inventory Turnover is decreasing.

40. An analyst has compiled the following data for a company:

	FY 2016	FY 2017	FY 2018
ROE	19.8%	20%	22%
ROA	8.1%	8%	7.9%
Asset Turnover	2.0	2.0	2.1

Based only on the above information, the ***MOST*** appropriate conclusion is that over the three year period, the company's:
   a. Net margin and financial leverage have decreased
   b. Net margin and financial leverage have increased
   c. Net margin has increased but financial leverage has decreased
   d. Net margin has decreased but financial leverage has increased
   e. None of the above

41. You have the following data for a company:

	FY 2016	FY 2017
Fixed Assets	$2.8 million	$2.8 million
Accumulated Depreciation	$1.2 million	$1.6 million

The company uses straight line depreciation with no salvage value. At the end of FY 2017, the average age of the company's fixed assets is **4 years**, and the average depreciable life of its fixed assets is **7 years**.

42. You are evaluating the solvency and liquidity of XYZ Co. in light of the following information:

	FY 2017	FY 2016	FY 2015
Total Debt	$2000	$1900	$1750
Total Equity	$4000	$4500	$5000

Your ***MOST LIKELY*** conclusion is that:

a. The company is becoming less solvent

b. The company is becoming less liquid

c. The company is becoming more solvent

d. The company is becoming more liquid

43. Using the same information as for Question #42, what is the ***MOST REASONABLY PROBABLE*** explanation for the financial data?

a. The decrease in equity is the result of the decline in the market value of the company's stock.

b. The decrease in equity may be the result of recurring losses, payment of dividends greater than net income or repurchase of shares.

c. The increase in total debt may mean the company has a higher credit rating in FY 2017 than in FY 2015.

44. Which of the following will ***MOST LIKELY*** motivate company managers to inflate earnings?

a. The possibility of a bond covenant violation.

b. Projected earnings in excess of analysts' forecasts.

c. Projected earnings greater than those of the previous period.

45. If the ratio of cash flow to net income has consistently **Decreased** (increased/decreased/fluctuated/stayed the same) for a five year period, it may be a sign the company is using aggressive accrual accounting policies to shift current expenses into later periods.

46. Projecting a company's profits into the future based on past results would likely be ***MOST*** reliable when the company:

a. Is in the commodities business.

b. Operates in a single business segment for over ten years.

c. Is a large diversified company with a long record of operating in mature industries.

47. You are analyzing a company and you see the following information for its most recent fiscal year and the prior year:

Beginning Cash	$10 million
Net Income	20 million
Depreciation	2 million
Increase in Receivables	1 million
Decrease in Inventory	1 million
Increase in Prepaid Expenses	1 million
Increase in Payables	2 million
Decrease in Unearned Revenue	1 million
Ending Cash	36 million

What is the company's cash flow from operations for the current year?

$22 Million

What is the company's other comprehensive income for the current year?

$4 Million

48. An analyst is comparing the financial performance of two companies—one of which reports under IFRS and the other under GAAP. Assuming the companies enter into an identical long-term contract to lease an identical asset, which of the following metrics is *most* likely to differ?

a. Total assets.
b. Total liabilities.
c. **Financing Cash Flows.**
d. Total cash flows.
e. Current ratio.
f. There would be no difference.

49. A company that indemnifies a property and casualty company (P&CC) for losses resulting from claims paid to policy holders by directly reimbursing the PC&C is called a/an

Reinsurer

50. DEF, Inc. purchases machinery for use in its manufacturing business during FY 2020 and incurs the following expenditures in connection with the purchase

42,500 purchase price, payable in full 30 days after delivery
4000 tax on the purchase price
2200 for delivery of the machinery
3000 for installation and testing of the machinery
1100 to train staff on operating the machinery
2100 to train staff on maintaining the machinery
3350 to reinforce the factory floor and ceiling joists to accommodate the machinery's weight.
11,500 to repair the factory roof (a repair expected to extend the useful life of the factory by five years).
1,000 to have the interior of the factory and adjoining offices repainted for maintenance reasons. The repainting neither extends the life of factory and offices nor improves their usability.

How much of these expenditures does the company have to capitalize?
$69,450

To expense?
$3100

51. EFG Inc. reports the following financial information for its FY 2021. EFG's fiscal year is the calendar year.

Net Revenues	$10 million
All Expenses before Depreciation	$4 million
Depreciation Expense	$800,000
Accounts Receivable 1/1	$1.2 million
Accounts Receivable 12/31	$1.4 million
Effective Tax Rate	20%

EFG is a cash basis taxpayer. It has a net operating loss from earlier tax years of $500,000, EFG has no other reportable relevant financial information.

What is EFG's income for FY 2021 per its income statement?
$5.2 Million

What is EFG's taxable income for FY 2021 as per its tax return?
$4.5 Million

What will EFG report as income tax expense for FY 2021 on its income statement?
$900,000

What will EFG show as deferred tax liabilities and/or deferred tax assets on its books for FY 2021?
$40,000 Deferred tax liability

52. You are analyzing IOCorp, a financial services consulting and publishing company. You see the following information from its financial statements:

(In 000s)	FY Ended 3/31/2023	FY Ended 3/31/2022
Cash		650
Accounts Receivable	200	100
Inventory	50	20
Long Term Assets	1600	1600
Accumulated Depreciation	500	350
Accounts Payable	100	50
Compensation Payable	100	50
Unearned Revenue	100	920
Long Term Debt	300	300
Common Stock	800	800
Retained Earnings	405	(100)

Based on the following information only, what is the likely amount of

Cash on hand reported on IO's balance sheet as of 3/31/2023?
$650,000

IO’s Net Income and Other Comprehensive Income per its income statement for FY 2023?
Not enough info

IO’s Depreciation Expense for FY 2023?
$150,000

IO’s Net Cash Flows from Operations per its cash flow statement for FY 2023?
Not enough info