**Group 1:**

1. As it relates to financial reporting, which of the following is not required of an accounting entity?

A) A financial statement presenting the amount that the entity expects to earn next year.

B) A financial statement presenting the financial position of the entity at a point in time.

C) A financial statement presenting the results of the entity's operations for a period of time.

D) A financial statement summarizing the entity's cash flows for a period of time.

E) All of the above are required of an accounting entity.

2. Examples of how investors, creditors, and others commonly use reported earnings figures and the related information about the elements of financial statements include all of the following except:

A) Estimating the number of employees the firm will hire during the next year.

B) Evaluating management's past performance.

C) Predicting future earnings.

D) Assessing the risks of future cash flows.

E) All of the above are examples of how these data are used.

3. Accounting is defined as the process of:

A) Reporting assets, liabilities, stockholders' equity, revenues, expenses, and dividends to investors and creditors for their decision-making purposes.

B) Identifying, measuring, and communicating economic information about an organization for the purpose of making decisions and informed judgments.

C) Accruing, adjusting and closing the financial statements to provide the most relevant and reliable financial information possible for the purpose of making decisions and informed judgments.

D) Providing financial information so that potential investors or creditors can make their own predictions of future earnings.

E) Presenting the financial position and results of operations in the most favorable light possible to enhance shareholder wealth.

4. Major classifications of accounting activity would not include:

A) financial accounting, internal auditing, public accounting

B) internal auditing, governmental accounting, managerial accounting

C) financial accounting, national accounting, cost accounting

D) auditing, income tax accounting, governmental accounting

E) financial accounting, managerial accounting, governmental accounting

5. Which of the following is not an example of a decision or informed judgment that a potential investor would make from accounting information?

A) Future profitability based on past profitability.

B) Probability of success of a new product development.

C) A forecast of dividends.

D) Assessment of risk that a company may have more debt than it can repay if the economy enters a recession.

E) Assessment of the risk that the company may become bankrupt in the near future.

6. Which of the following are qualified to express an auditor's opinion about an entity's financial statements?

A) A Comptroller.

B) A Certified Management Accountant.

C) A Certified Internal Auditor.

D) A Certified Public Accountant.

E) None of the above.

7. Which of the following statements related to the origins and traditions of auditing is most true?

A) Auditing has always followed a codified set of rules designed to detect and report fraud.

B) Little judgment has traditionally been required on the auditor's part because the numbers a firm reports are either correct or they're not.

C) Auditing evolved as a response to the needs of absentee owners of large corporations who had entrusted their money in the hands of managers they could not directly control.

D) In the early 1920's, auditors became unified in their efforts, and generally accepted auditing procedures were consistently followed to the point that financial statements were considered quite reliable.

E) Auditing was traditionally done only for banks.

8. The ethical concept of independence means that an accountant employed:

A) by a corporation cannot prepare financial statements for use by the company's bank.

B) by one company cannot work part-time for another company.

C) by an auditing firm cannot own any stock in the company being audited.

D) by one company cannot accept a job with another company in the same industry.

E) an accountant's independence would be impaired in any of the above situations.

9. Which of the following statements about the Financial Accounting Standards Board is correct?

A) The FASB is an agency of the Federal government.

B) The FASB has the authority to fine a noncompliant firm.

C) The FASB follows a due process procedure that permits input from interested parties before an Accounting Standards Update is issued.

D) The FASB is controlled by the American Institute of CPA's.

E) None of the above statements is correct.

10. The authoritative financial accounting standards-setting body in the United States is presently the:

A) Securities and Exchange Commission (SEC).

B) International Accounting Standards Board (IASB).

C) Public Company Accounting Oversight Board (PCAOB).

D) Financial Accounting Standards Board (FASB).

E) Accounting Principles Board (APB).

Answers: AABCB DCCCD

**Group 2**

1. Which of the following is not a correct expression of the accounting equation?

A) Assets - Liabilities = Stockholders' Equity

B) Net Assets = Liabilities + Stockholders' Equity

C) Assets = Liabilities + Stockholders' Equity

D) Net Assets = Stockholders' Equity

E) All of the above are correct expressions of the accounting equation.

2. The stockholders' equity section of a balance sheet contains two major components:

A) Common Stock and Additional Paid-in Capital

B) Paid-in Capital and Retained Earnings

C) Common Stock and Retained Earnings

D) Net Income and Dividends

E) Additional Paid-in Capital and Net Income

3. The principle stating that all expenses incurred while earning revenues should be identified with the revenues when they are earned, and reported for the same time period is the:

A) cost principle.

B) revenue principle.

C) expense principle.

D) matching principle.

E) timing principle.

4. Which of these is not a limitation of financial statements?

A) Qualitative data are not reflected in financial statements.

B) Market values of assets are not generally reported.

C) Estimates are commonly used and are sometimes inaccurate.

D) It may be difficult to compare firms in the same industry because they often use different accounting methods.

E) All of the above are limitations of financial statements.

5. The balance sheet is sometimes referred to as the:

A) Statement of Financial Position.

B) Statement of Assets and Liabilities.

C) Statement of Changes in Financial Position.

D) Statement of Current Affairs.

E) None of the above

6. The time frame associated with a balance sheet is:

A) a point in time in the past.

B) a one-year past period of time.

C) a single date in the future.

D) a function of the information included in it.

E) a two-year comparative period of time.

7. The distinction between a current asset and other assets:

A) is based on how long the asset has been owned.

B) is based on amounts that will be paid to other entities within a year.

C) is based on the ability to determine the current fair value of the asset.

D) is based upon whether the asset is tangible or intangible.

E) is based on when the asset is expected to be converted to cash, or used to benefit the entity.

8. The purpose of the income statement is to show the:

A) change in the fair market value of the assets from the prior income statement.

B) market value per share of stock at the date of the statement.

C) revenues collected during the period covered by the statement.

D) net income or net loss for the period covered by the statement.

E) all of the above.

9. The going concern concept refers to a presumption that:

A) the entity will be profitable in the coming year.

B) the entity will not be involved in a merger within a year.

C) the entity will continue to operate in the foreseeable future.

D) top management of the entity will not change in the coming year.

E) none of the above.

10. The principle of consistency means that:

A) the accounting methods used by an entity never change.

B) the same accounting methods are used by all firms in an industry.

C) the effect of any change in an accounting method will be disclosed in the financial statements or notes thereto.

D) there are no alternative methods of accounting for the same transaction.

E) the balance sheet must always balance.

Answers: BBDEA, AEDCC

**Group 3**

1. Retained Earnings is not:

A) increased by net income.

B) decreased by expenses.

C) increased by revenues.

D) decreased by dividends declared.

E) decreased by losses.

2. Which of the following is not a correct expression of the accounting equation?

A) Assets = Equities

B) Assets = Liabilities - Stockholders' Equity

C) Assets = Liabilities + Paid-in Capital + Retained Earnings

D) Assets = Liabilities + Paid-in Capital + Revenues - Expenses

E) Assets - Liabilities = Stockholders' Equity

3. Which of the following lists of accounts all have debit balances?

A) Land, Equipment, and Paid-in Capital.

B) Accounts Receivable, Merchandise Inventory, and Salary Expense.

C) Notes Receivable, Dividends Payable, and Interest Expense.

D) Accounts Receivable, Accumulated Depreciation, and Buildings.

E) None of the above.

4. Credits are used to record:

A) decreases to assets and increases to expenses, liabilities, revenues, and stockholders' equity.

B) decreases to assets and expenses and increases to liabilities, revenues, and stockholders' equity.

C) increases to assets, and decreases to expenses, liabilities, and stockholders' equity.

D) increases to assets and expenses and decreases to revenues, liabilities, and stockholders' equity.

E) decreases to assets and stockholders' equity and increases to liabilities, expenses and revenues.

5. In the seller's records, the sale of merchandise on account at an amount that yields a gross profit would:

A) increase assets and increase expenses.

B) increase assets and decrease liabilities.

C) increase assets and increase paid-in capital.

D) increase assets and decrease revenues.

E) decrease assets and increase expenses

6. The effect of an adjustment on the financial statements is usually to:

A) make the balance sheet balance.

B) increase net income.

C) increase the accuracy of both the balance sheet and income statement.

D) match revenues and assets.

E) increase or decrease cash.

7. In the buyer's records, the purchase of merchandise on account would:

A) increase assets and increase expenses.

B) increase assets and increase liabilities.

C) increase liabilities and increase paid-in capital.

D) increase liabilities and decrease assets.

E) have no effect on total assets.

8. Which of the following is not one of the 5 questions of transaction analysis?

A) What's going on?

B) Which accounts are affected?

C) Is this an accrual?

D) Does the balance sheet balance?

E) Does my analysis make sense?

9. Arch Co. has a note payable to its bank. An adjusting entry is likely to be required on Arch's books at the end of every month that the loan is outstanding to record the:

A) amount of interest paid during the month.

B) amount of total interest to be paid when the note is paid off.

C) amount of principal payable at the maturity date of the note.

D) accrued interest expense for the month.

E) all of the above.

10. Which statement best describes the purpose of closing entries:

A) To continue recording the effects of transactions which began in one year and will be completed in another year.

B) To compute net income or net loss for the year.

C) To prepare the books for the posting process and taking a trial balance.

D) To eliminate the balances in the revenue and expense accounts so they have zero balances at the beginning of the next fiscal year.

E) To eliminate the need for preparing adjustments.

Answers: EBBBA CBCDD

**Group 4**

1. The current assets of most companies are usually made up of:

A) assets that are currently used in the operations of the company.

B) cash and assets expected to be converted to cash within a year.

C) a very small proportion (less than 10%) of the total assets of the entity.

D) cash, marketable securities, and accounts and notes receivable.

E) all assets that can be converted into cash.

2. A cash equivalent is a current asset that:

A) will be converted to cash within one year.

B) will be converted to cash within one month.

C) is readily convertible into cash with a minimal risk.

D) is readily convertible into cash with a substantial risk.

E) none of the above.

3. The principal reason for reconciling the cash balance per books with the balance shown on the bank statement is to:

A) determine the amount of cash in the account actually available to the entity.

B) satisfy generally accepted accounting principles.

C) verify the amount of petty cash on hand.

D) determine whether or not the entity has issued an NSF check.

E) make sure that the bank is not charging too much in fees.

4. Internal control systems involve a series of checks and balances that separate each of the functional duties involved in processing a transaction, and are normally designed to do all of the following except:

A) Promote accuracy and reliability of the company's records and financial statements.

B) Safeguard and protect a company's assets against improper or unauthorized use.

C) Prevent groups of employees from committing collusive acts of fraud.

D) Encourage employees to adhere to the company's prescribed policies and procedures.

E) Provide an environment that is conducive to efficient operation of the organization.

5. Bad debt expense is recognized in the same accounting period as the revenue that is related to the receivable because:

A) the accounts receivable asset should be stated at original cost.

B) the exact amount of the losses from bad debts is known.

C) revenues should be stated at realizable value.

D) all costs incurred in the current period should be subtracted from current period revenues.

E) write-offs are always recorded in the period during which the sale takes place.

6. Which of the following is true regarding a note receivable?

A) A note receivable is always a long-term asset.

B) A note receivable is always a current asset.

C) A note receivable is usually non-interest bearing.

D) A note receivable is normally issued by a bank.

E) A note receivable is a more formal document than an account receivable.

7. Inventories:

A) represent a major portion of the property, plant, and equipment assets for many firms.

B) are recorded as debits to assets when purchased and as debits to expenses when used.

C) must be accounted for using either the LIFO or FIFO method.

D) are not an important component of working capital for most firms.

E) decrease ROI because they use cash.

8. When comparing its effects to LIFO during an inflationary time, the effects of FIFO are to:

A) decrease net income and decrease total assets.

B) decrease net income and increase total assets.

C) increase net income and decrease total assets.

D) increase net income and increase total assets.

E) none of the above.

9. The effect of an error resulting in an understatement of ending inventory is to:

A) overstate the next period's beginning inventory.

B) understate cost of goods sold of the current period.

C) overstate cost of goods sold of the current period.

D) overstate operating expenses of the current period.

E) understate cost of goods sold for the next period.

10. Prepaid expenses classified as current assets represent:

A) current year expenses that have been accrued.

B) current year cash payments that will not be treated as expenses and thus matched against revenues until the next year.

C) cash that has been segregated to pay for future expenses.

D) expenses of the current year that have been paid in advance.

E) cash collected in advance for revenues that will be earned in the next year.

Answers: BCACD EBDCB

**Group 5**

1. When a firm buys land on which there is a building, and the building is torn down so that an appropriate new building can be constructed on the land:

A) any of the purchase cost allocated to the old building is reported as a loss.

B) the cost assigned to the land excludes the cost of the old building.

C) the total cost of the land and old building are capitalized as land cost.

D) any of the purchase cost allocated to the old building is capitalized as part of the cost of the new building.

E) any of the above are generally acceptable accounting alternatives.

2. Expenditures capitalized as noncurrent assets generally include those expenditures that:

A) are made for normal repairs to maintain the usefulness of the asset over a number of years.

B) are for items that have a physical life of more than a year, regardless of their cost.

C) are material and that have an economic benefit to the entity only in the current year.

D) are material and that have an economic benefit to the entity that extends beyond the current year.

E) are immaterial.

3. Which of the following statements best describes the process of accounting depreciation?

A) A process that attempts to recognize loss in economic value over a period of time.

B) A process for setting aside cash so funds will be available to replace the asset.

C) A process for recognizing the cost of an asset that should be matched against revenue earned as a result of using the asset over a period of time.

D) A process for recognizing all of the economic cost associated with using an asset in a revenue generating activity.

E) A process that measures the physical wear and tear of an asset.

4. The entry to record depreciation on long-term assets:

A) decreases total assets and increases net income.

B) decreases current assets and increases expenses.

C) decreases total assets and decreases earnings before taxes.

D) increases earnings before taxes and increases tax expense.

E) decreases total assets and decreases expenses.

5. Which depreciation method results in equal depreciation expense for each year of an asset's useful life?

A) Units-of-production

B) Sum-of-the-years-digits

C) Double-declining-balance

D) MACRS

E) Straight-line

6. When a depreciable asset is sold:

A) a gain arises if the sales proceeds exceed the net book value.

B) a loss arises if the sales proceeds exceed the net book value.

C) any cash received results in a gain.

D) depreciation expense is adjusted so there is no gain or loss.

E) accumulated depreciation increases.

7. The present value concept is widely applied in business because:

A) inflation erodes the purchasing power of money.

B) money has value over time.

C) accounting for operating leases requires its use.

D) most obligations are settled within a year.

E) depreciation calculations require its use.

8. If you owed $200 at the end of each year for the next three years, the present value of the obligation would be:

A) less than it would be if you owed all $600 at the end of three years.

B) the same as it would be if you had to pay $300 today and $300 at the end of three years.

C) more than $600.

D) less than it would be if you had to pay $300 today and $300 at the end of this year.

E) none of the above.

9. Noncurrent, intangible assets such as leasehold improvements, patents, and copyrights are all subject to:

A) depreciation.

B) amortization.

C) depletion.

D) consolidation.

E) recognition.

10. Goodwill is an asset that arises because the present value of an acquired company's estimated future earnings, discounted at the acquiring firm's ROI is:

A) more than the fair value of the net assets of the acquiring company.

B) less than the fair value of the net assets of the acquiring company.

C) equal to the fair value of the net assets of the acquiring company.

D) less than the fair value of the net assets of the acquired company.

E) more than the fair value of the net assets of the acquired company.

Answers: CDCCE ABDBE

**Group 6**

1. All of the following are examples of "accrued expense" types of liabilities except the liability for:

A) short-term notes taken out at a bank during the year.

B) payroll taxes owed by the employer for the year.

C) property taxes owed to local governments for the year.

D) salaries and wages owed to employees at the end of the year.

E) estimated product warranty costs on products sold during the year.

2. When choosing between issuing common stock and issuing bonds, managers of corporations should take into account:

A) the tax advantages to the company of deducting the interest costs on bonds.

B) the demands placed upon their company by stockholders who expect to be paid quarterly dividends.

C) the risks associated with having to make fixed interest payments on bonds at predetermined times.

D) the impact that the choice will have on their company's leverage.

E) all of the above are considerations.

3. The recognition of liabilities often results in:

A) the recognition of expenses.

B) a more conservative representation of financial position.

C) a decrease in net income.

D) a decrease in ROI.

E) all of the above.

4. Which of the following is not typically classified as a current liability?

A) Accounts Payable.

B) Notes Payable.

C) Bonds Payable.

D) Unearned Subscription Revenue.

E) Interest Payable.

5. In reference to the Discount on Bonds Payable and Premium on Bonds Payable accounts, which statement is true?

A) The Discount on the Bonds Payable account is a contra asset.

B) The Discount on the Bonds Payable account reduces working capital.

C) The Discount on the Bonds Payable account is amortized by a credit entry each period.

D) As the Premium on Bonds Payable account is amortized each period, the Interest Expense account is increased to the amount it would have been, had the bonds been sold at par.

E) The premium on Bonds Payable account is a contra liability.

6. When borrowing money, the most important objective of the borrower should be to:

A) minimize monthly payments.

B) minimize the APR.

C) avoid borrowing on a discount basis.

D) make the maturity date as far in the future as possible.

E) reading all of the hidden terms and conditions.

7. Interest on a note payable is most appropriately accrued:

A) when the note is signed.

B) as of the end of each accounting period during which the note is a liability.

C) when principal payments on the note are made.

D) when the interest is paid.

E) at the maturity date of the note.

8. Which of the following is (are) a true statement(s) pertaining to bonds?

A) Bonds can be sold at a discount, par, or payable.

B) Bonds can be sold at a discount, par, or premium.

C) The SEC sets the market price of a bond.

D) The issuing firm sets the price of a bond.

E) None of the above.

9. Financial leverage refers to which of the following?

A) The difference between the rate of return earned on assets (ROI) and the rate of return earned on stockholders' equity (ROE).

B) The difference between the rate of return earned on current assets and the rate of return earned on retained earnings.

C) The leverage a firm obtains from increasing production.

D) Decreasing fixed costs per unit by increasing production.

E) None of the above.

10. Consolidated financial statements refer to:

A) Financial statements reported on an industry-wide basis.

B) The parent's and subsidiary's financial statements are reported on a separate basis.

C) The parent's and subsidiary's financial statements are reported on a combined basis.

D) The parent's and subsidiary's financial statements are reported ignoring interest, depreciation, and taxes.

E) None of the above.

Answers: AEECC BBBAC

**Group 7**

1. Which of the following is not a right or attribute of common stock ownership?

A) Electing directors.

B) Liability limited to amount invested.

C) Approving changes in corporate charter.

D) Determining dividend policy.

E) All of the above are rights of common stock ownership.

2. If a common stock has no par value:

A) there is no way of determining the market value per share.

B) the stock must have a stated value.

C) there will not be any additional paid-in capital related to it, assuming that the common stock does not have a stated value either.

D) the common stockholders are not allowed to have a preemptive right.

E) the company's shares cannot be listed on an organized stock exchange.

3. Which of the following is not usually a right or attribute of preferred stock?

A) Having a claim to dividends in excess of the annual dividend requirement if dividends on common stock exceed dividends on preferred stock.

B) Having a priority claim to dividends relative to the common stock's claim to dividends.

C) Having a priority claim in liquidation relative to the common stock's claim in liquidation.

D) Having a claim to dividends that is cumulative over time if the annual dividend requirement is not satisfied.

E) All of the above are usually rights or attributes of preferred stock.

4. The shares outstanding are the:

A) shares authorized minus the shares issued.

B) shares authorized minus the shares held in the treasury.

C) shares issued minus the shares held in the treasury.

D) shares issued minus the shares owned by directors.

E) shares held in treasury minus the shares owned by directors.

5. A stock dividend is similar to a cash dividend in that:

A) an individual stockholder's equity in the firm's net assets is reduced by each.

B) an individual stockholder's cash is increased by each.

C) an individual stockholder's equity in the firm's net assets is increased by each.

D) retained earnings and the amount of potential future dividends is reduced by each.

E) each is an application of the return on investment concept.

6. The principal reason for a company having a common stock split is to:

A) increase the total cash dividends paid to stockholders.

B) capitalize retained earnings.

C) decrease total stockholders' equity.

D) decrease the market value per share of common stock.

E) change from par value to no par value stock.

7. Treasury stock involves shares which are:

A) authorized, but not yet issued.

B) authorized, issued, and outstanding.

C) issued and outstanding, but not yet authorized.

D) not yet authorized.

E) authorized and issued, but not currently outstanding.

8. Similarities between preferred stock and bonds include all of the following, except:

A) Each has a fixed claim to annual income (dividends and interest, respectively).

B) Each has a fixed claim on assets (liquidating value and principal amount, respectively).

C) Each allows the corporation a tax deduction (dividends and interest, respectively).

D) Each may be callable and/or convertible.

E) All of the above are similarities between preferred stock and bonds.

9. Which of the following would not affect total Retained Earnings? (Assume it is the end of the fiscal year and that the books have been closed.)

A) Cash dividends.

B) Net Income.

C) Stock dividends.

D) Stock splits.

E) All of the above would affect total Retained Earnings.

10. Which of the following does not appear in the stockholders' equity section of a balance sheet?

A) Preferred Stock.

B) Additional Paid-In Capital.

C) Current maturities of long-term debt.

D) Accumulated Other Comprehensive Income (Loss).

E) Treasury Stock.

Answers: DCACD DECDC

**Group 8**

1. The first caption in most income statements in annual reports is:

A) gross sales.

B) net sales.

C) earned revenues.

D) sales, less sales returns and allowances.

E) none of the above.

2. Gains differ from revenues because gains:

A) do not have to be realized.

B) are reported as income from operating activities.

C) do not involve any offsetting costs or expenses.

D) are normally recognized as an application of accounting conservatism.

E) are not a result of the entity's ongoing, central operations.

3. Under most circumstances, in order to recognize revenue:

A) cash must have been received.

B) the entity must expect to receive cash in the future.

C) the entity must have paid for all expenses incurred in generating the revenue.

D) the revenue must be realized or realizable, and earned.

E) all of the above.

4. The gross profit ratio is useful to the manager for each of the following purposes except that:

A) it can be used to determine the selling price to set for an item.

B) it can be used to estimate the amount of inventory lost in a fire.

C) it can be used to determine the amount available from a given amount of revenue to cover operating expenses.

D) it can be used to estimate the amount of operating expenses for a period.

E) it can be used for all of the above.

5. Because of their importance to financial statement users, certain items are normally ported as separate items on the income statement (especially when significant in amount). Which of the following is not normally reported as a separate item?

A) Advertising Expense.

B) Cost of Goods Sold.

C) Interest Expense.

D) Income Tax Expense.

E) Net Income Attributable to Noncontrolling Interest.

6. When the periodic inventory system is used:

A) operating profit from the sale of an item of inventory is known when the item is sold.

B) gross profit from the sale of an item of inventory is known when the item is sold.

C) a physical inventory must be taken in order to estimate the cost of goods sold.

D) ending inventory includes the cost of goods sold.

E) cost of goods sold can be calculated by subtracting the ending inventory amount from the sum of beginning inventory and purchases.

7. Income from operations is:

A) sometimes called the "bottom line."

B) sometimes used in the ROI calculation.

C) usually used in the ROE calculation.

D) usually calculated after income tax expense.

E) equal to net income plus other comprehensive income (loss).

8. Earnings per share calculations are required on the income statement for:

A) Cost of Goods Sold, Noncontrolling Interest, and Income from Continuing Operations.

B) Discontinued Operations, Operating Income, and Net Income.

C) Discontinued Operations, Extraordinary Items, and Net Income.

D) Income Tax Expense, Extraordinary Items, and Net Income.

E) Cost of Goods Sold, Discontinued Operations, and Extraordinary Items.

9. The major difference between the indirect and the direct method of a statement of cash flows appears in which the following activities section(s)?

A) The investing activities and financing activities sections.

B) The investing activities section only.

C) The operating activities and financing activities sections.

D) The operating activities section only.

E) The operating, investing, and financing activities sections.

10. Which of the following transactions would not be shown under the operating activities category of the statement of cash flows (using the direct method):

A) cash received from customers.

B) cash paid to purchase land.

C) cash paid for interest and taxes.

D) cash paid to merchandise suppliers.

E) cash paid to employees for salaries.

Answers: BEDDA EBCDB

**Group 9**

1. Many financial analysts substitute one amount for another in making ratio analysis comparisons in order to better achieve inter-company or company-to-industry data comparability. Which of the substitutions described below would not achieve better data comparability (for the ratio indicated) under any situation?

A) Cost of goods sold for sales—in the numerator of the inventory turnover ratio.

B) Cost of plant and equipment for net book value—in the numerator of the plant and equipment turnover ratio.

C) Expected future earnings per share for current earnings per share—in the denominator of the price/earnings ratio.

D) Average net assets for average total assets—in the denominator of the return on investment ratio.

E) Number of working days in a year for 365—in the denominator of the number of days' sales in accounts receivable ratio.

2. If the trend of the current ratio is increasing, while the trend of the acid-test ratio is decreasing over a period of time, this could be a warning that the firm is:

A) depleting its inventories.

B) having trouble collecting its accounts receivables.

C) purchasing too much treasury stock.

D) paying "extra" dividends.

E) carrying excess inventories.

3. Return on Investment (ROI) is computed as:

A) Net income divided by average total assets.

B) Net income divided by total sales.

C) Net income divided by average total stockholders' equity.

D) Sales divided by average total assets.

E) Sales divided by average total stockholders' equity.

4. Which of the following is not a category of financial statement ratios?

A) Financial leverage.

B) Liquidity.

C) Profitability.

D) Reliability.

E) Activity.

5. An individual interested in making a judgment about the profitability of a company should:

A) review the trend of working capital for several years.

B) calculate the company's ROE for the most recent year.

C) review the trend of the company's ROI relative to the trend of the industry average ROI for several years.

D) compare the company's price/earnings ratio at the end of most recent year with the industry average price/earnings ratio at the end of the most recent year.

E) review the trend in the company's book value per share for several years.

6. A potential creditor's judgment about granting credit would be most influenced by the potential customer's:

A) current ratio at the end of the prior fiscal year.

B) most recent acid-test ratio.

C) trend of acid-test ratio over the past three years.

D) practice with respect to taking cash discounts offered by current suppliers.

E) price/earnings ratio.

7. The comparison of activity measures (such as turnover ratios) of different companies is complicated by the fact that:

A) dollar amounts of working capital may be significantly different from company to company.

B) dollar amounts of assets may be significantly different from company to company.

C) only one of the companies may have preferred stock outstanding.

D) the number of shares of common stock issued may be significantly different.

E) different inventory cost flow assumptions may be used.

8. The dividend payout ratio describes:

A) the proportion of earnings paid as dividends.

B) the relationship of dividends per share to market price per share.

C) the percentage change in dividends this year as compared to last year.

D) dividends as a percentage of the price/earnings ratio.

E) the relationship of dividends per share to average total assets.

9. If management wanted to increase the financial leverage of the firm, it would:

A) raise additional capital by selling common stock.

B) use excess cash to build up its productive capacity to achieve better utilization of its buildings and equipment.

C) raise additional capital by selling fixed interest rate long-term bonds.

D) try to increase its ROI by increasing asset turnover.

E) concentrate on improving the firm's working capital management.

10. A vertical common size income statement:

A) uses the dollar amount of net sales in the base year as the denominator for the comparisons made to other items within any given year.

B) expresses all items within any given year's income statement as a percentage of net sales for that given year.

C) makes horizontal comparisons between years more difficult.

D) is useful in estimating the impact of inflation.

E) is useful in comparing the percentage increases from year to year in operating expenses.

Answers: DEADC DEACB

**Group 10**

1. Managerial accounting, as opposed to financial accounting, is primarily concerned with:

A) The financial condition of the organization as a whole.

B) Meeting the requirements of generally accepted accounting principles.

C) Emphasizing the future.

D) Providing data for investors and creditors.

E) Determining exact results.

2. Activities included in a generally accepted definition of the management process include:

A) Planning, organizing, controlling.

B) Planning, operating, reporting.

C) Preparing, operating, creating.

D) Preparing, organizing, converting.

E) None of the above.

3. Contribution margin can be expressed as:

A) Sales minus variable expenses.

B) Sales minus cost of goods sold.

C) Sales minus fixed expenses.

D) The level of sales required to cover variable expenses.

E) The level of sales required to cover fixed and variable expenses.

4. The contribution margin income statement:

A) Reports expenses based upon cost behavior pattern rather than cost function.

B) Unitizes fixed costs.

C) Shows contribution margin rather than operating income as the bottom line.

D) Is sometimes used for financial reporting purposes.

E) None of the above.

5. The relevant range concept refers to:

A) A firm's range of profitability.

B) A firm's range of sales.

C) A firm's range of rates of return.

D) A firm's range of activity.

E) A firm's range of expenses.

6. Cost behavior refers to:

A) Costs that are both good and bad.

B) Costs that are variable or fixed.

C) Costs that decrease at a quicker rate than others.

D) Costs that increase at a quicker rate than others.

E) None of the above.

7. Which of the following is the correct calculation for the contribution margin ratio?

A) Revenue divided by variable costs.

B) Revenue divided by contribution margin.

C) Contribution margin divided by variable costs.

D) Contribution margin divided by fixed costs.

E) Contribution margin divided by revenue.

8. Cost-volume-profit analysis assumes fixed costs:

A) Remains constant on a per unit basis as activity changes.

B) Remains constant from one period to the next.

C) Increases in total as activity increases.

D) Remains constant as activity changes.

E) None of the above.

9. At the break-even point:

A) Fixed cost is always less than the contribution margin.

B) Fixed cost is always equal to the contribution margin.

C) Fixed cost is always more than the contribution margin.

D) Fixed cost is always more than variable cost.

E) Fixed cost is always equal to variable cost.

10. Which of the following will increase a company's break-even point?

A) Increasing variable cost per unit.

B) Decreasing variable cost per unit.

C) Reducing total fixed costs.

D) Increasing selling price per unit.

E) Increasing contribution margin per unit.

Answer: CAAAD BEDBA

**Group 11**

1. Return on Investment (ROI) can be described or computed in each of the following ways, except:

A) Amount Invested / Amount of Return = ROI.

B) Net Income / Average Total Assets = ROI.

C) (Net Income / Sales) x (Sales / Average Total Assets) = ROI.

D) Turnover x Margin = ROI.

E) All of the above describe ROI.

2. Working capital includes all of the following accounts except:

A) Accounts Payable

B) Cash

C) Retained Earnings

D) Merchandise Inventory

E) Accounts Receivable

3. Which of the following would not decrease working capital?

A) A decrease in Cash.

B) An increase in Accounts Payable.

C) An increase in Merchandise Inventory.

D) A decrease in Accounts Receivable.

E) All of the above decrease working capital.

4. Assume that Kulpa Company has a current ratio of 0.7. Which of the following transactions would increase this ratio?(final)

A) Paying off Long-term Debt with Cash.

B) Selling Merchandise Inventory at cost for Cash.

C) Collecting Accounts Receivable in Cash.

D) Paying off Accounts Payable with Cash.

E) Purchasing Merchandise Inventory on credit.

5. Financial statement ratios support informed judgments and decision making most effectively when:

A) viewed for a single year.

B) viewed as a trend of entity data.

C) compared to an industry average for the most recent year.

D) the trend of entity data is compared to the trend of industry data.

E) the trend of entity data is compared to industry data for the most recent year.

6. The return on investment measure of performance is:

A) relevant only to business enterprises.

B) used by individuals to compare investment performance.

C) calculated using sales as the amount of return.

D) calculated using total assets at the beginning of the period as the amount of investment.

E) calculated using average stockholders' equity as the amount of investment.

7. An advantage of the DuPont model for calculating ROI is that it:

A) focuses on asset utilization as well as net income.

B) is easier to use than the straightforward ROI formula.

C) uses average total assets whereas the straightforward ROI formula does not.

D) uses average total stockholders' equity.

E) breaks ROI into its margin and return components.

8. Return on equity:

A) Will be the same as return on investment.

B) Relates dividends and turnover.

C) Relates dividends and stockholders' equity.

D) Relates net income and stockholders' equity.

E) Uses net cash flows as the measure of return.

9. Which of the following accounts is part of working capital?

A) Retained Earnings

B) Sales

C) Merchandise Inventory

D) Common Stock

E) Long-Term Debt

10. For a firm that presently has a current ratio of 2.0, the effect on this ratio of paying a current liability is:

A) Raises the current ratio.

B) Lowers the current ratio.

C) Doesn't affect the current ratio.

D) Depends on the amount paid.

E) Not determinable based on the facts given.

Answers: ACCED BADCA