

Q-1. An increase in which of the following items would most likely result in an increase in a company's quick ratio, all else being held equal?

- A. Receivables
- B. Current liabilities
- C. Inventory

Q-2. Brown Corporation had average days of sales outstanding of 19 days in the most recent fiscal year. Brown wants to improve its credit policies and collection practices and decrease its collection period in the next fiscal year to match the industry average of 15 days. Credit sales in the most recent fiscal year were \$300 million, and Brown expects credit sales to increase to \$390 million in the next fiscal year. To achieve Brown's goal of decreasing the collection period, the change in the average accounts receivable balance that must occur is closest to:

- A. +\$0.41 million.
- B. −\$0.41 million.
- C. −\$1.22 million.

Q-3. After reviewing the inventory records for Argo, the following cost related to inventory were incurred:

Fixed production overhead	\$450,000
Direct material purchased	\$225,000
Direct labour cost	\$135,000
Storage costs incurred during production	\$25,000
Storage cost incurred before deliver to customers	\$12,500
Normal waste costs	\$7,500
Abnormal waste costs	\$30,000

The inventory value capitalized in the balance sheet of Argo is closest to:

- A. \$810,000.
- B. \$842,500
- C. \$885,000.

Q-4. For a manufacturing company, its information is shown in the table below:

	\$ million
Ending inventory (under FIFO)	5.8
NRV	5.5
Replacement cost	5.0
Normal profit margin	0.8

Compared to IFRS, under US GAAP, the COGS for this company is most likely:

- A. The same
- B. 0.5 higher
- C. 0.5 lower

Q-5. Assume U.S. GAAP applies unless otherwise noted. Sauerbraten Corp. reported 2007 sales (\$ in millions) of \$2,157 and cost of goods sold of \$1,827. Inventories at year-end 2007 and 2006, respectively, were \$553 and \$562. The company uses the LIFO method for inventory valuation and discloses that if the FIFO inventory valuation method had been used, inventories would have been \$63.3 million and \$56.8 million higher in 2007 and 2006, respectively. Compared to the inventory turnover ratio reported, if Sauerbraten had exclusively used the FIFO method its inventory turnover ratio would have been closest to:

- A. 2.96.
- B. 3.28.
- C. 3.49.