

Midterm Exam

Due Jul 1 at 6am **Points** 108 **Questions** 39

Available Jun 25 at 11:59pm - Jul 1 at 6am 5 days

Time Limit 210 Minutes

Instructions

Mid Term Exam (40% of Final Grade)

This EXAM may be taken during the time period June 25 , 11:59 pm to June 30, 11:59pm eastern daylight saving time and will require 210 minutes of uninterrupted time.

The Midterm Exam covers Financial and Managerial Accounting; and Financial Analytical Techniques. Because questions are multiple choice, there will be no credit for "work" or partially correct answers. For problems where calculations are required, pick the multiple choice answer that closest approximates your answer. Problems that are solved using excel are noted. For the other problems there may be very minor differences between your answer and the correct answer listed in the choice options simply due to differences in rounding. There is only one correct answer per problem.

The exam does not start until you have concluded the proctoring initialization process. Once the exam is visible you will have exactly 210 minutes to complete it. This process cannot be "paused" so please remember that once you start, 210 minutes later the exam will automatically close and no further entries will be permitted.

Maximum Points That Can Be Earned Is 108 Points

Good Luck

Proctoring Rules: For this exam, you may use any physical calculator and/or Microsoft Excel (or equivalent). No other windows or programs should be open. Additionally,

- You may not use books, notes, formula or "cheat" sheets.
- You may not use more than one monitor.
- You may have blank scratch paper to write on during the exam. Before answering your first question, please hold up all blank sheets of paper, slowly showing both sides.
- You may have earbuds for the microphone function (one of the requirements of proctoring) during the exam.

If you have any issues during the exam, contact **ProctorTrack** directly by sending an email to support@verificent.com or call **1-844-753-2020**.



BEFORE YOU TAKE THIS QUIZ

You will need to begin verification by obtaining your unique access code.

Get Access Code

This quiz was locked Jul 1 at 6am.

Attempt History

	Attempt	Time	Score
LATEST	<u>Attempt 1</u>	210 minutes	80 out of 108

Score for this quiz: **80** out of 108

Submitted Jun 30 at 9:09pm

This attempt took 210 minutes.

If you run into a technical issue during your exam, please contact the appropriate provider:

- **Canvas:** Call 1-877-259-8498 or use the chat here <https://cases.canvaslms.com/liveagentchat?chattype=student>
- **ProctorTrack:** Call 1-844-753-2020 and use the chat function in the ProctorTrack window.

Question 1

2 / 2 pts

Before you begin answering questions, please hold up each sheet of blank scratch paper and slowly show both sides.

Financial Accounting Questions (Count 2 Points each)

Which statement below is **True**?

Correct!



In the percentage of receivables method for estimating bad debts, the bad debt expense is arrived at by deducting the previous allowance for bad debts from the new allowance for bad debts



The presentation order of assets on the Balance Sheet is usually according to the Purchase Date of the asset



If a bond has a contract (stated) rate of interest of 4%, but the market rate of interest is 3.50%, the bond will sell at a discount



Under GAAP reporting the bad debt expense is recognized when the actual invoice is written off as uncollectible



The allowance for bad debts is a contingent liability

Question 2

2 / 2 pts

According to the matching principle:

Correct!



expenses should be recognized in the same period as related revenues are recognized.



expenses should be recognized when cash is paid out.



assets should equal the sum of liabilities and owners' equity.



revenues should be recognized when earned.



current assets should equal current liabilities.

Question 3

2 / 2 pts

Which one of the following is NOT a "contra" account?

Correct!

- ☒ Deferred Revenues
- ☐ Treasury Stock
- ☐ Discounts on Sales
- ☐ Accumulated Depreciation
- ☐ Discount on Bonds Payable

Question 4

0 / 2 pts

Which one of the following is reported on the Balance Sheet at market value?

Answered

Correct Answer

- ☐ Accounts Receivable
- ☐ Buildings
- ☐ Treasury Stock
- ☒ Land
- ☐ Marketable Securities

Question 5

2 / 2 pts

In periods of rising prices, FIFO (as compared to LIFO), produces:

Correct!

- ☐ Cost of goods sold equivalent to that of FIFO.
- ☐ Lower gross margin
- ☒ A lower cost of goods sold
- ☐ Lower net income

- ☐ Lower ending inventory cost.

Question 6

0 / 2 pts

Which ONE of the following statements is TRUE?

Answered

- ☒ On a GAAP accrual basis Income Statement revenues and expenses always match the firm's cash flow

☐ Dividends paid to shareholders are reported as an expenses on the firm's Income Statement

☐ Dividends paid to a firm's stockholders, both preferred and common stockholders, are tax deductible to the paying company

☐ The Retained Earning account is only reduced when dividends are actually paid to the firm's shareholders

☐ The Income Statement represents a snapshot of account balances at a point in time

Correct Answer

- ☐ Bogus Question. None of the statements in this list are TRUE

Question 7

0 / 2 pts

A gain on the retirement of bonds will occur when the cash paid to retire the bonds is:

Answered

- ☒ Greater than the carrying value of the bonds.

Correct Answer

☐ Less than the carrying value of the bonds.

☐ Greater than the face value of the bonds.

☐ Less than the face value of the bonds.

- ☐ Less than the interest paid to the bondholders

Question 8

0 / 2 pts

Capital expenditures:

- ☐ Are treated as assets on the Balance Sheet
- ☐ Are treated as expenses on the Income Statement
- ☐ Decrease the productive life or capacity of an asset
- ☒ Occur when assets are sold
- ☐ Are never depreciated
- ☐ Typically benefit only the period in which the expenditure is made

Correct Answer

Answered

Question 9

2 / 2 pts

Deferred taxes arise because the government changes the tax rate table.

- ☐ True
- ☒ False

Correct!

Question 10

2 / 2 pts

Managerial Accounting Questions (Counts 2 Points Each)

(True/False). An unavoidable fixed cost is not relevant when comparing alternatives in management decision making.

Correct!

- ☒ True
- ☐ False

Question 11

0 / 2 pts

To obtain the total standard quantity of materials, one needs to know:

Not Answered

- ☒ the amount of budgeted output.
- ☐ the actual quantity of materials purchased.
- ☐ the amount of actual output.
- ☐ the actual quantity of materials used in production.
- ☐ the standard price of materials.

Correct Answer

Question 12

0 / 2 pts

Work in process Inventory includes the cost of:

Correct Answer

- ☐ All goods that are only partially completed
- ☐ All goods sold during the period
- ☐ All materials purchased during the period
- ☒ All materials released to production during the period
- ☐ All goods that are completed and ready to sell

Not Answered

Question 13

2 / 2 pts

In management decision-making, an opportunity costs is:

Correct!

- ☒ A relevant cost.
- ☐ An irrelevant cost.
- ☐ An imaginary cost.
- ☐ A fixed cost.
- ☐ An indirect cost.

Question 14

0 / 2 pts

In calculating the Cost of Goods Manufactured which cost below would **NOT** be considered to be relevant to the calculation? There may or may not be more than one correct answer. If more than one answer is correct, indicate all answers that you believe are correct.

Correct Answer

☐ Ending Finished Goods Inventory

Answered

☒ Fixed Factory Overhead

Answered

☒ Variable Factory Overhead

Answered

☒ Ending WIP (work in process)

Answered

☒ Direct Materials

Answered

☒ Direct Labor

Question 15

0 / 3 pts

Financial Accounting Short Problems (Counts 3 Points Each)

Equipment was purchased for \$32,000. Freight charges amounted to \$700 and there was a cost of \$2,200 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$7,000 salvage value at the end of its 5-year useful life. Routine maintenance on the equipment is expected to cost \$1,345 over the equipment's useful life.

Depreciation expense each year using the straight-line method will be:
\$ _____

Answered

☒ \$5,849

☐ \$5,269

Correct Answer

☐ \$5,580

☐ \$5,000

☐ \$5,440

Question 16

3 / 3 pts

The next six questions are all based on the following **2019 fiscal year end account information** for The Frozone Ice Emporium Company, a franchisor of community ice skating rinks. The financial data below can be used to develop a set of Financial Statements (Income Statement, Balance Sheet, and Owner's Equity calculation) for fiscal 2019. HOWEVER, the individual questions can be answered simply by classifying the appropriate accounts and adding (or subtracting) the accounts together. How you approach this problem is up to you. None of the six questions require that you answer a previous question correctly.

Accounts Payable	\$45,340
Bonds Payable	\$338,000
Salaries Payable	\$9,415
Accounts Receivable	\$90,950
Advertising Expense	\$54,000
Cash	\$383,100
Concession Revenues	\$21,050
Taxes Payable	\$172,400

Income Tax Expense	\$312,500
Supplies Expense	\$355
Rent Expense	\$49,300
Cost of Goods Sold (Merchandise and Concessions)	\$32,000
Pre-Paid Expenses	\$8,950
Deferred Revenue	\$1,920
Common Stock	\$51,000
Notes Payable	\$11,000
Utilities Expense	\$950
Accumulated Depreciation	\$377,100
Depreciation Expense	\$54,100
Salaries Expense	\$86,200
Land	\$740,000
Net Franchising Revenues	\$1,520,000
Interest Revenues	\$1,700
Discount on Bonds Payable	\$19,700
Merchandising Sales Revenues	\$56,145
Marketable Securities	\$90,640
Interest Expense	\$92,900
Merchandise Sales Returns	\$3,200
Treasury Stock	\$2,200
Equipment	\$329,300
Marketing Expenses	\$117,000
Allowance for Doubtful Accounts	\$7,320
Buildings	\$1,220,000
Current Portion Mortgages Payable	\$22,000
Current Portion Bonds Payable	\$16,200
Dividends Declared	\$9,000
Mortgage Payable	\$620,000
Ending Retained Earnings (2019)	\$1,306,390
Merchandise Inventory	\$93,245

NOTE that the Retained Earning balance shown above is the **ENDING** Retained Earnings for fiscal 2019.

For this question Calculate the Net Income (after interest and taxes) for The Frozone Ice Emporium Company using the data above. Select the best answer below.

☐ \$936,490

☐ \$1,201,790

☐ \$798,310

Correct!

☒ \$796,390

☐ \$787,440

Question 17

3 / 3 pts

Continuing with The Frozone Ice Emporium Company, what should be the total amount of Current Liabilities shown on the firm's fiscal year end 2019 Balance Sheet?

☐ \$265,355

Correct!

☒ \$267,275

☐ \$276,275

☐ \$229,075

☐ \$360,175

Question 18

0 / 3 pts

Continuing with The Frozone Ice Emporium Company, what should be the total amount of Current Assets shown on the firm's fiscal year end 2019 Balance Sheet?

☐ \$698,965

Correct Answer

☐ \$659,565

☐ \$690,015

Not Answered

☒ \$650,615

☐ \$644,925

Question 19**3 / 3 pts**

Continuing with The Frozone Ice Emporium Company, what should be the amount of Total Long Term Debt reported on the firm's fiscal year end 2019 Balance Sheet?

- ☐ \$969,000
- ☐ \$1,216,575
- ☒ \$949,300
- ☐ \$1,026,900
- ☐ \$988,700

Correct!**Question 20****3 / 3 pts**

Continuing with The Frozone Ice Emporium Company, what should be the balance of the Total Fixed Assets (long-term assets) shown on the firm's fiscal year end 2019 Balance Sheet?

- ☒ \$1,912,200
- ☐ \$2,289,300
- ☐ \$2,571,765
- ☐ \$1,921,150
- ☐ \$1,988,200

Correct!**Question 21****3 / 3 pts**

Concluding the questions regarding The Frozone Ice Emporium Company and its fiscal year end 2019 Balance Sheet, what should be shown as Frozone's total balance for the owner's equity account?

- ☐ \$1,431,190

Correct!

☐ \$2,151,580

☒ \$1,355,190

☐ \$1,359,590

☐ \$1,435,590

Question 22

3 / 3 pts

The Teeny Titan Exercise Company had the following purchases of inventory during the month of December. There were 1,750 units sold during the month. Assume that the company uses the FIFO inventory method. What were the Cost of Goods Sold in December?

Date	Transaction	Units	Unit Costs
12/1	Beginning Inventory	500	\$4
12/5	Purchase No. 1	600	\$6
12/18	Purchase No. 2	500	\$8
12/24	Purchase No. 3	400	\$10
12/28	Purchase No. 4	250	\$11

Correct!

☒ \$11,100

☐ \$16,350

☐ \$5,250

☐ \$14,350

☐ \$2,000

Question 23

0 / 3 pts

Tony Stark Enterprises has the following stock outstanding reported on its year end 2018 Balance Sheet:

8% Cumulative preferred stock, par \$20	\$1,500,000
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Common stock, par \$.01	\$200,000
Common Stock Paid-In Capital in Excess of Par	\$312,570,000

In 2018, the firm paid \$1,000,000 in dividends. \$100,000 in dividends were paid in 2017, and no dividends were paid at all in 2016. Prior to 2016 no dividends were in arrears. What should be the dollar amount of dividends paid to the Common Stock holders in 2018?

☐ \$1,000,000

☐ \$880,000

☐ \$740,000

☒ \$860,000

☐ \$808,000

Correct Answer

Answered

Question 24

3 / 3 pts

Managerial Accounting Short Problem Counts 3 Points Each

Including direct materials, direct labor, and all factory overhead accounts in 2018, Marvel Industries incurred \$480,000 in total variable costs and \$550,000 for total fixed costs to produce 50,000 action figures (each action figure is considered to be a unit of production); resulting in a \$20.60/unit product unit cost. In 2019 Marvel is expected to produce 54,000 units without increasing any of the factory's fixed cost. If Marvel hits this production target, what will be their total unit cost in 2019? (Choose answer closest to yours)

☐ \$20.60

☐ \$21.37

☐ \$19.07

☒ \$19.79

☐ \$17.66

Correct!

Question 25**0 / 3 pts**

The New Life Consumer Products makes a number of consumer items for general household use. During a recent month the company manufactured 4,000 chopping blocks using 11,000 feet of hardwood. The hardwood cost the company \$18,700 when purchased. According to the product's standard cost card, each chopping block requires 2.5 feet of hardwood at a standard price of \$1.80 per foot. Assuming that the company recognizes the material price variance when the **material is used** in production, what was the total material cost variance for the 4,000 chopping blocks produced? Choose the answer below that best matches your calculation.

Answered

☒ \$1,000 favorable

Correct Answer

☐ \$700 unfavorable☐ \$1,800 unfavorable☐ \$600 unfavorable☐ \$600 favorable☐ \$700 favorable**Question 26****7 / 7 pts****Managerial Accounting Problem (Counts 7 Points)**

Budgeted unit costs and production for the three products made by The G-zilla Unique Sports Equipment Company Inc. are as follows:

	HobbyHorse	Kaiju Battle Paddle	Quidditch Ball
Units of Product	5,200	8,000	2,000
Direct materials	\$14.00/unit	\$3.75/unit	\$29.50/unit
Direct labor	\$36 /unit	\$6.50 /unit	\$.5/unit

Total Direct Labor Hours	4,200 hours	1,800 hours	350 hours
Sales Price	\$79.99	\$36.99	\$39.99

Other information for the coming fiscal year is as follows:

			Required Units*	Required Units*	Required Units*
Activity	Budgeted Costs	Cost Driver	HobbyHorse	Kaiju Battle Paddle	Quidditch Ball
Process Machinery	\$175,000	Machine Hours	2,300 hours	2,200 hours	200 hours
Inspection	\$19,500	Inspection Hours	40 hours	35 hours	15 hours
Set-Ups	\$25,000	Number of Set-Ups	14 set-ups	23 set-ups	10 set-ups
Total Budgeted OH Costs	\$219,500				

*required units of cost drivers

The company only makes the three products noted above. Using the ABC Method for Overhead Allocation what will the total budget product unit cost be for the Kaiju Battle Paddle?

☐ \$0.90

☐ \$4.73

☒ \$22.97

☐ \$7.45

☐ \$2.22

Correct!

Question 27

3 / 3 pts

Continuing with The G-zilla Unique Sports Equipment Company and using the product costs and price information in the question above, what will the projected **Gross Margin per Unit** be for the HobbyHorse product? **For this problem assume that the company will NOT be using the ABC method but instead is using a plant wide rate based on direct labor hours.**

This problem counts 3 Points

☐ \$29.99

☐ \$4.14

☐ \$52.07

☐ \$19.57

☒ \$2.07

Correct!

Question 28

2 / 2 pts

Financial Analytical Techniques Questions Counts 2 Points Each

Consider the financial data for firms Y and Z. Which firm most likely has the higher cost of capital? HINT: you cannot actually calculate the cost of capital given the data provided.

	Firm Y	Firm Z
Beta	.15	1.8
Debt Basis Points	203	100
% debt in capital structure	50%	5%

☐ Firm Y

☒ Firm Z

Correct!

Question 29

2 / 2 pts

(True/False). One advantage of the NPV method for capital budgeting rather than the payback period method is that the NPV method considers all cash flows.

Correct!

☒ True

☐ False

Question 30

2 / 2 pts

(True/False). An important problem with the use of the IRR method to evaluate investment alternatives is a mix of future positive and negative cash flows may result in multiple IRRs.

Correct!

☒ True

☐ False

Question 31

2 / 2 pts

(True/False). To create economic value, it's only necessary that a firm create positive accounting profits.

Correct!

☐ True

☒ False

Question 32

3 / 3 pts

Financial Analytical Techniques Problems Counts 3 Points

In answering the next five questions, consider the following cash flows on five mutually exclusive projects for the Adult Playtime Corporation, a maker of adult-themed toys that still can be enjoyed by the entire family. Each project represents a proposed new toy, game, or on-line game or app.

Year	"Who's the Boss" Board Game	Family Trivia Interactive DVD	Parent Swap Phone App	Baby Bounce Racing Game Release 1.0	Twister On-Line Game with Chat
0	(\$950)	(\$2,100)	(\$500)	(\$1,800)	(\$2000)
1	\$875	\$1,600	\$600	\$1,500	\$800
2	\$550	\$1,050	\$200	\$1,200	\$700
3	\$130	\$900	\$50	(\$1,000)	\$600
4	\$100	\$50	\$50	\$1,000	\$200
5	\$75	\$25	\$50	\$500	\$100

Adult Playtime Corporation management only uses two criteria in making investment decisions, NPV and IRR. For the purpose of your analysis assume the company's cost of capital is 14%. Calculate the NPV and IRR for each of these projects then answer the following four questions.

Which project has the highest Net Present Value?

☐ Board Game

☒ Interactive DVD

☐ Phone App

☐ Racing Game Release 1.0

☐ Twister On-Line

Correct!

Question 33

3 / 3 pts

Continuing with the Adult Playtime Corporation, what is the NPV of the Racing Game Release 1.0 project?

Correct!

- ☒ \$615
- ☐ \$762
- ☐ \$2,416
- ☐ \$1,118
- ☐ \$1,966

Question 34

3 / 3 pts

Continuing with Adult Playtime Corporation, what is the IRR of the Interactive DVD project? NOTE: Excel was used in this calculation, but the result was rounded to the nearest whole percent.

- ☐ 44%
- ☐ 50%
- ☒ 37%
- ☐ 33%
- ☐ 18%

Correct!

Question 35

3 / 3 pts

Continuing with the Adult Playtime Corporation, which project has the highest IRR?

- ☐ Board Game
- ☐ Interactive DVD
- ☒ Phone App
- ☐ Racing Game Release 1.0

Correct!

☐ Twister On-Line

Question 36

0 / 2 pts

Concluding the Adult Playtime Corporation questions, which **ONE** of the five proposed projects **will destroy** economic value?

☐ Board Game

☐ Interactive DVD

☐ Phone App

☐ Racing Game Release 1.0

☐ Twister On-Line

☒ **BOGUS QUESTION : ALL five project create economic value.**

Correct Answer

Answered

Question 37

5 / 5 pts

US 10 Year T-Bond Yield	2.09%
Market Risk Premium	6.25%
Tax Rate	21%
Total Debt	\$56.96B
Rating of Debt	A2 (123 basis points)
Beta	.7
Market Capitalization	\$254.93B
Book Value of Equity	4.57B
Price	\$141.65
Price to Sales Ratio	4.27
ROA	5.59%
Total Debt to Equity (BV)	54.02
Shares Outstanding	1.8B
BV/Share	\$50.50

Revenue/Share	\$39.83
Current Ratio	.77
Total Cash/Share	\$5.62

Financial Analytical Techniques Problem Counts 5 Points

Consider the financial profile above for The Walt Disney Company (as of June 15, 2019) and calculate the Cost of Capital for the firm. Excel was used to calculate the correct answer.

☐ 6.47%

☐ 3.32%

☐ 3.89%

☒ 5.76%

☐ 9.46%

Correct!

Question 38

3 / 3 pts

Continuing with The Walt Disney Company and using the profile information in the question above, calculate Disney's MVA.

As discussed in the videoconferences there are 2 ways in which this problem can be solved. The answer will vary slightly given the approach chosen. One answer will be an exact match to an option provided below while the other approach will be slightly different from any of the choices. In that case pick the answer (it should be obvious) closest to your solution.

NOTE: This problem only counts 3 Points

☐ \$311.89B

☒ \$164.07B

☐ \$254.93B

Correct!

☐ \$790.27 million

Question 39

7 / 7 pts

Financial Analytical Techniques Problem Counts 7 Points

Last year Avengers Compacting Services purchased and installed a new X1600 Wall-E Super-Smasher used in compacting cars, SUVs, and small trucks into 2 cubic yards of compacted metal. The X-1600 Wall-E cost \$588,000 and had a "useful life" of 6 years. Recently the firm's CEO became aware of a new technology that promised many advantages over the X-1600 Wall-E, including compacting the junk vehicles into 1 cubic yard of compacted metal, instead of 2 cubic yards. He asked his CPA to do a financial analysis to determine if a new Super-Smasher called the EVE-1000 could be an economically viable replacement for a Super-Smasher (the X-1600) that was only one year old. The CPA determined that the new technology could be purchased for \$750,000 today and would have a useful life of 5 years before it would likely become technologically obsolete and be essentially worthless. (The EVE-1000 runs hotter than the X-1600 Wall-E and has a shorter useful life). For depreciation purposes the company uses the straight line method.

The Avengers VP of Scrap Yard Services and the CPA agreed that the new machine could significantly improve production and create higher revenues for the firm. With this information the CPA estimated that the new technology will produce EBITDA (earnings before interest, taxes, depreciation and amortization) of \$365,000 per year for the next 5 years.

The current machine is expected to produce EBITDA of \$265,000 per year. The current machine is being depreciated on a straight line basis over a useful life of 6 years after which it will have no salvage value; so the depreciation expense for the **current** machine (the X-1600) is \$98,000 per year. All other expenses of the two machines are identical. The market value of the current machine is \$340,000. Your company's tax rate is 21% and the cost of capital is 14%. Calculate the NPV of the **replacement decision** and choose the best answer below. NOTE: **DO NOT** make any assumptions regarding the tax treatment for the **gain or loss** on the disposal the X-1600 Wall-E.

☐ NPV = \$-55,469 DO NOT buy the EVE-1000

☒ NPV = \$-101,297 DO NOT buy the EVE-1000

☐ NPV = \$-85,859 DO NOT buy the EVE-1000

☐ NPV = \$-61,669 DO NOT buy the EVE-1000

Correct!

☐ NPV = \$343,308 BUY the EVE-1000

Quiz Score: **80** out of 108