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## Review: Accounting Crash Course Exam v4



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### Question 1

Assume US GAAP to answer this question.

- In 2017, \$2 million in wages were earned and no cash wages were paid.
- In 2018, \$8 million in wages were earned and \$7 million in cash wages were paid.
  - Cash wages were used to first pay wages earned in 2017 with the remainder used to pay wages earned in 2018.
  - Any earned but unpaid wages will be paid during the first quarter of 2019.

Using only the information provided, which of the following statements is most accurate?

liabilities increased by \$1.0 mn in '18  
liabilities increased by \$3.0 mn in '18  
assets decreased by \$5.0 mn in '18  
RE decreased by \$10.0 mn in '18  
RE decreased by \$7.0mn in '18

### Question 2

A company reported gross profit of \$20 million in 2018. In addition, it recorded the following activities:

- Sales and marketing expenses were \$5 million.
- Interest income was \$2 million.
- Sold equipment for \$5 million that had a net book value of \$9 million.
- \$3 million in preferred stock issuance.
- Company's tax rate is 40%.

Calculate the company's net income.

\$5.4mn  
\$6.0  
\$6.8  
\$7.2  
\$7.8

### Question 3

The next two questions use the following data from TGX Global, a heavy equipment manufacturer (this information will be repeated on the next question):

TGX Global sells excavators, with an average sale price of \$500,000 per excavator.

- TGX received new orders for 90 excavators in 2018.

- TGX produced & delivered 120 excavators in 2018: 50 excavators were ordered in 2017 and the rest (70 excavators) were ordered in 2018.
- TGX received payment for 110 excavators.
- TGX began selling 1-year maintenance services contracts for \$50,000 per excavator in 2018, which begin after the excavator is delivered. Contracts were sold on 50% of all excavator orders made in 2018 (no contracts were sold on orders placed in 2017).

Assume all excavators delivered in 2018 are delivered at year end, **calculate TGX's 2018 revenue** based on the transactions described above.

millions

\$45.0

\$55.0

\$60.0

\$61.0

\$66.0

#### Question 4

This question uses the same TGX Global data as the previous question, repeated below:

TGX Global sells excavators, with an average sale price of \$500,000 per excavator.

- TGX received new orders for 90 excavators in 2018.
- TGX produced & delivered 120 excavators in 2018: 50 excavators were ordered in 2017 and the rest (70 excavators) were ordered in 2018.
- TGX received payment for 110 excavators.
- TGX began selling 1-year maintenance services contracts for \$50,000 per excavator in 2018, which begin after the excavator is delivered. Contracts were sold on 50% of all excavator orders made in 2018 (no contracts were sold on orders placed in 2017).

Assume now that instead of the revenue recognized in the previous question, TGX recognized \$50 million in revenue for 100 excavators (and assume no maintenance contract revenue was recognized). In addition, the following occurred in 2018:

- TGX recognized \$2 million in shipping and delivery costs for its excavators.
- TGX recognized \$6 million in direct labor expenses.
- TGX recognized \$3 million in commissions paid to its salespeople for selling the excavators.
- TGX purchased \$60 million in raw materials in 2018, of which \$50 million was in cash.
- Raw materials required to assemble each excavator cost \$300,000 per excavator.

**Calculate TGX's 2018 gross profit** based on the transactions described above.

(millions)

\$(15.0)

\$9.0

\$12.0

\$14.0

\$18.0

#### Question 5

Fairview Corporation recorded the following in 2018:

- After-tax net income was \$20 million in 2018.
- The actual share count at the beginning of the year was 10.0 million.

- Fairview repurchased 2 million shares at \$12/share in the middle of 2018.
- Fairview issued preferred dividends of \$3 million and common dividends of \$2 million.
- Fairview issued 4 million stock options in 2018 that begin to vest in 2019.

Calculate 2018 basic earnings per share (EPS).

1.25  
1.67  
1.89  
2.22  
2.25

#### Question 6

Dynamic Resources reported the following information for year ending June 30, 2016 (values in millions):

Plant, Property & Equipment, gross	\$3,000
Accumulated Depreciation	1,400
Plant, Property & Equipment, net	1,600
Salvage Value	200

The company also reported the following transactions on the first day of fiscal 2017:

- Sale of asset with gross PP&E of \$600 million for \$500 million and useful life of 3 years and no salvage value. Recorded a gain on sale of \$300 million.
- Write off of asset with gross PP&E of \$400 million. Asset was purchased 3 years ago with original useful life of 4 years and salvage value of \$200 million.
- Purchase of new equipment for \$1,400 million with useful life of 8 years and no salvage value.

Assuming the remaining useful life of other equipment is 10 years on a straight-line basis, what is the net PP&E as of June 30, 2017?

(millions)  
\$2,125  
\$2,260  
\$2,300  
\$2,435

#### Question 7

Information about the assets of TAP Holdings is provided below:

- TAP purchased land on January 1, 2013 for \$250 million. As of January 1, 2018, the fair value was estimated to be \$290 million.
- TAP purchased a trademark on January 1, 2016 for \$150 million. As of January 1, 2018, the fair value was estimated to be \$80 million.
- TAP acquired a company on Jun 5, 2016 and recognized \$880 million in goodwill as a result. A \$140 million goodwill impairment was recognized at year end 2017.
- Assume a useful life of 5 years and the straight-line method for any depreciable or amortizable assets above.

Assume TAP reports under US GAAP. What is the total value of these assets reported on TAP's balance sheet as of January 1, 2018

(millions)  
\$1070  
\$890  
\$1170  
\$1140

## Question 8

For the next 2 questions, use the [financials of Acme Corporation](#).

After adjusting revenue for accounts receivable and deferred revenue, how much cash did Acme generate from revenue for the nine months ending September 30, 2017?

(millions)  
 \$851.7  
 \$892.1  
 \$939.4  
 \$979.8

## Question 9

For this question, use the [financials of Acme Corporation](#).

Note the industry average ratios below:

- A/R days (based on average balances) = 57 days
- A/P days (based on average balances) = 23 days
- Current ratio (based on ending balance) = 1.8x

Based on Acme's A/R days, A/P days and Current ratios for the nine months ending September 30, 2017, which of the following conclusions is most accurate? Assume 273 days in the nine months ending September 30, 2017 and 365 days in the year.

Compared to the industry average

acme has more favorable collection terms but less favorable payment terms with vendors  
 acme has more favorable collection terms and more favorable payment terms with vendors  
 acme has less favorable collection terms and less favorable payment terms with vendors  
 acme has less favorable payment terms with vendors and a less favorable current ratio  
 acme has less favorable collection terms and less favorable current ratio

## Question 10

For the next 2 questions, use the [Grove Analytics Financials](#).

Calculate Grove's 2018 cash from operations.

115  
 121  
 131  
 108

## Question 11

For the next 2 questions, use the [Grove Analytics Financials](#).

Calculate Grove's 2018 cash from investing activities.

(30)  
 (10)  
 10  
 30

## Question 12

For this question, use the [Grove Analytics Financials](#).

Calculate 2018 cash from financing activities for Grove Analytics. Hint: Remember to capture dividends. Also, remember that stock based compensation expense is a credit to common stock & APIC.

- (36)
- (23)
- (40)
- 6

## Question 13

Barney Corporation reported the following figures for their year ending December 31, 2019:

- **Gross profit:** 538,000
- **Cost of goods sold:** 453,000
- **Net income:** 230,000

Using the data above, calculate Barney Corp's 2019 Gross Profit Margin.

- 54.3%
- 45.7%
- 42.8%
- 23.2%

## Question 14

Which of the following activities are credits?

1. The impact on accounts receivable from a \$10 million collection from a customer.
2. The impact on treasury stock from a company repurchasing \$32 million in shares.
3. The impact on inventory from a company recognizing \$15 million in cost of goods sold expense.
4. The impact on debt from a \$15 million principal paydown.

- 1 only
- 2 & 4
- 2 & 3
- 1 & 3

## Question 15

- On January 1, 2019, Fitbit goes public and issues 50 million shares at \$20 per share.
- Fitbit had 200 million shares prior to going public and the book value of the common stock & additional paid in capital was \$500 million.
- On January 1, 2020, Fitbit shares are trading at \$45 per share and, for the first time ever, Fitbit buys back 20 million shares.

What is the January 1, 2020 balance of common stock & APIC?

- (billions)
- \$10.35
- \$1.50
- \$1.10
- \$0.60

## Question 16

- Barney Corporation recognized a \$100 million preferred stock balance on 12/31/2019.
- On January 1, 2020, Barney issued \$10 million in preferred dividends.
- On the same date, Barney raised an additional \$20 million via a new issuance of preferred stock.
- On December 31, 2020, the market value of the original amount of preferred shares rose \$5 million.

Under US GAAP, the 12/31/2020 year ending preferred stock balance is:

(millions)

\$110

\$115

\$120

\$125

## Question 17

Squat XFit Inc. reported the following activities during 2020. You may also view this data in Excel with the [Squat XFit Activities file](#).

Activities during the year (\$ in millions)	2020
Capital expenditures	67.3
Cost of goods sold	34.5
Cash purchases of inventory	24.6
Dividends	5.0
Income tax rate	25%
Interest expense	45.6
Net revenues	158.5
Other operating expenses	16.5
Purchases of intangible assets	45.0
Gain on sale of land	5.0
Selling, general, & administrative	14.9
Write-down of PP&E	7.0
Interest income	4.0
Depreciation expense	14.0
Amortization expense	9.0
Write down of inventory	5.0
Stock based compensation expense	12.0
Paydown of short term debt	4.0

Calculate net income for the year ending 12/31/2020.

(mns)

\$3.00

\$3.75

\$6.75

\$15.75

## Question 18

Squat XFit Inc. reported the following (\$ in millions). You may also view this data in Excel with the [SquatFix Financials file](#).

Financial results	2020
Revenue	80.4

Financial results	2020
EBITDA	40.7
Interest income	3.0
Tax rate	25.0%
Interest rate on debt	5.0%

Balances as of	12/31/2019	12/31/2020
Net PP&E	212.7	246.0
Intangible assets	45.0	54.0
Debt	214.0	214.0

Purchases	2020
<i>Assume purchases made at year end and thus did not generate D&amp;A in 2020</i>	
Capital expenditures	53.4
Purchases of intangible assets	12.5

Calculate net income for the year ending 12/31/2020

(mns)

\$7.1

\$24.8

\$18.6

\$4.8

#### Question 19

Squat XFit Inc. reported the following activities and select balance sheet items (\$ in millions). You may also view this data in Excel with the [SquatFix Activities and Balance Sheet file](#).

Select results during year ending December 31, 2020	
Revenue	453.2
Interest expense	12.5
Depreciation expense	43.2
Stock based compensation	12.5
Tax rate	40%
Net income	134.5

Balances as of:	12/31/2019	12/31/2020
Accounts payable	120.5	130.5
Accounts receivable	74.8	82.4
Common Stock & APIC	146.4	163.5
Deferred revenue	453.0	532.0
Inventory	132.6	143.2
Current portion of debt	214.0	275.0

Balances as of:	12/31/2019	12/31/2020
Net PP&E	212.7	246.0
Pre-paid expenses	50.0	35.0
Treasury stock	(112.3)	(123.2)
Accrued wages	67.8	72.5
Other comprehensive income	12.1	13.5

Calculate cash flow from operations for the year ending 12/31/2020:

(mns)  
 \$204.7  
 \$250.7  
 \$271.3  
 \$280.7

#### Question 20

Kephlee is an amusement park operator and provided the following select financial data:

(\$ in millions)	December 31, 2020
Revenue	\$121.5

	December 31, 2019	December 31, 2020
Accounts receivable	95.4	123.5
Deferred revenue	34.6	45.6

Based on the information provided, what were cash sales during 2020?

\$136.9  
 \$119.8  
 \$104.4  
 \$93.4  
 \$82.4

#### Question 21

Bazman is an electronics retailer and provided the following select financial data (assume income statement items are for the full year):

(\$ in millions)	December 31, 2020
Gross profit	\$140
Operating expenses	78
Accrued expenses	19
Prepaid wages	15
Depreciation & amortization expense	12
Prepaid rent	5
Stock based compensation expense	4
Other comprehensive income	5
Tax rate	25%
Net income	41



Based on the information provided, what was operating income during 2020?

\$44  
\$46  
\$51  
\$58

#### Question 22

McDowell Corporation spends the same amount on capital expenditures each year. All capital expenditures have an estimated useful life of 10 years. Over time, which of the following is most likely true?

capital expenditures and depreciation expense converge  
PP&E steadily increases to perpetuity  
PP&E approaches zero  
Capital Expenditures > depreciation expense

#### Question 23

In Q1 2018, CNA Companies reports the following transactions:

- Capital expenditures of \$15 million
- Loss on sale of equipment of \$6 million
- Debt principal repayment of \$8 million
- Preferred dividend of \$2 million
- Common dividend of \$3 million
- Share buyback of \$4 million

Ignoring the effect of taxes, what is the impact of these transactions on retained earnings?

(mns)  
(\$9)  
(\$11)  
(\$16)  
(\$38)

#### Question 24

Blueberry is a consumer technology company that reported the following financials (values in millions):

	2017	2018
Revenue	\$851	\$943
Deferred Revenue (ending balance)	\$347	\$668

Which of the following statements about the reason for the increase in deferred revenue from 2017 to 2018 is most plausible?

more rev was recognised than cash was collected in '18  
more gift cards have been redeemed than sold during '18  
lower number of prepaid streaming service subscriptions were sold during '18  
a higher number of smart phone extended warranty contracts were sold during '18

#### Question 25

Consider the following statements regarding Company A and Company B:

- The two companies have identical operating results but have made different accounting method choices.
- Company B reported lower COGS than Company A this year. Prices rose throughout the year.
- Both companies took a PP&E write downs in 2016. Company B reversed the write down and wrote the assets back up this year.

Which two companies most likely reports under US GAAP?

A only

B only

Both A and B

Neither A nor B

#### Question 26

For the next two questions, use [SEC EDGAR](#) to locate the 10-K for Steel Connect (Ticker STCN) filed on 10/16/17. When opening the 10K you'll notice the company is called ModusLink Global Solutions – it changed its name to Steel Connect after the filing.

Calculate Net Cash per Share for Steel Connect as of July 31, 2017. Net Cash is defined as cash, cash equivalents and trading securities, less debt obligations. Use the latest basic share count as of 10/1/17.

\$0.92

\$1.13

\$1.37

\$2.67