PRACTICE SIMULATION QUIZ#2: The actual quiz is an open-book on-line quiz. You will need a calculator to take the quiz, as many of the questions involve calculations.

It has a time limit of 105 minutes, and checks if players understand what the numbers in the company reports mean and how they are calculated. To do well on Quiz#2, students must have read the HELP screens to be sure they understand where all the numbers are coming from, how costs are allocated, and how to use the information to good advantage. The simulation website says this about Quiz#2:

"This 'open book' 20-question multiple choice quiz aims at testing your understanding and grasp of the Company Reports, the information on page 5 of the Footwear Industry Report, and exchange rate adjustments. The purpose of the quiz is to push you to gain a strong grasp of your company's revenue-cost-profit economics (the more you understand the company's business—in terms of how the numbers are calculated and what they mean, the better prepared you are to make solid decisions).
Prior to taking Quiz 2, be sure to print the "?/Help" screens for

- page 5 of the Footwear Industry Report (this Help screen has all the financial ratio formulas and explains how the credit rating measures are calculated—7 of the 20 quiz questions involve the various financial ratios and credit rating measures),
- the Plant Operations Report,
- the Branded Sales Report,
- the Private-Label Sales Report,
- the Marketing and Admin report, and
- the financial statements (Income Statement, Balance Sheet, and Cash Flow).

Most all of the quiz questions pertain to the information on the Help screens for these reports. It is unlikely that you will score well on Quiz 2 without having printouts of these ?/Help screens in front of you when you take the quiz. You might also want to have a copy of the Player's Guide available for reference.

"In preparing for Quiz 2, be sure you understand how costs are allocated between branded and private-label footwear—cost allocations are fully explained on the ?/Help screens for the Plant operations report, the Branded Sales report, the Private-Label report, and the Marketing and Admin Report.

"Some questions on Quiz 2 will relate to the company's Financial Statements (again the "?/Help" screens for these reports will be most informative and helpful), and 7 of the quiz questions will relate to page 5 of the FIR (particularly as concern the calculations of the three factors underlying the credit rating and the various ratios at the bottom of p.5 of the FIR).

"You can also expect questions about exchange rate adjustments (which are explained in some detail on several "?/Help" screens, especially the one for Private-Label Sales).
Three sample questions are provided below.

"WARNING: Be sure to print the "?/Help" screens for page 5 of the Footwear Industry Report, the Plant Operations Report, the Branded Sales Report, the Private-Label Sales Report, the Marketing and Admin reports, and the Financial Statements before you start the quiz. Most of the quiz questions are taken directly from information on the Help screens for these reports. It will be extremely difficult for you to earn a respectable score on Quiz 2 without having printouts of these ?/Help screens in front of you when you take the quiz."

There are three sample questions online. After these three, I put 20 more practice questions for your review. They start on the next page.

Sample Questions:

1. Exchange rate shifts that cause the Sing$ to be weaker versus the Brazilian real
   a. make the export of footwear from Asia-Pacific plants to Latin America less competitive and give rise to negative/favorable exchange rate cost adjustments.
   b. make the export of footwear from Asia-Pacific plants to Latin America less competitive and give rise to positive/unfavorable exchange rate cost adjustments.
   c. make the export of footwear from Asia-Pacific plants to Latin America more competitive and give rise to negative/favorable exchange rate cost adjustments.
   d. make the export of footwear from Asia-Pacific plants to Latin America less competitive and give rise to negative/unfavorable exchange rate cost adjustments.
   e. None of the above is accurate.

2. Given the following Year 12 Financial Statement data for a footwear company:

Income Statement Data			**Year 12 (in 000s)**
Net Revenues from Footwear Sales			$ 350,000
Operating Profit (Loss)			100,000
Net Profit (Loss)			63,000
Balance Sheet Data			
Cash on Hand			10,000
Total Current Assets			70,000
Total Assets			313,000
Overdraft Loan Payable			5,000
1-Year Bank Loan Payable			10,000
Current Portion of Long-term Loans			17,000
Total Current Liabilities			48,000
L-T Bank Loans Outstanding			90,000
Shareholder Equity:	**Year 11 Balance**	**Year 12 Balance**	
Common Stock	10,000	0	10,000
Additional Capital	123,000	0	123,000
Retained Earnings	29,000	13,000	42,000
Total Shareholder Equity	162,000	+13,000	175,000
Other Financial Data			
Depreciation			11,650
Dividend Payments			15,000

Based on the above figures, the company's "free cash flow" in Year 12 was
   a. $63,000
   b. ($3,350)
   c. $59,650
   d. $38,500
   e. None of these.

3. Assume a company has 12 million shares of stock outstanding and that its Income Statement for Year 12 is as follows:

Income Statement Data	Year 12 (in 000s)
Net Revenues from Footwear Sales	$ 360,000
Cost of Pairs Sold	200,000
Warehouse Expenses	16,000
Marketing Expenses	52,000
Administrative Expenses	8,000
Operating Profit (Loss)	84,000
Interest Income (expenses)	(14,000)
Pre-tax Profit (Loss)	70,000
Income Taxes	21,000
Net Profit (Loss)	$ 49,000

Based on the above income statement data, the company's net profit margin and EPS are

a. 13.6% and $4.08.
b. 17.2% and $5.40.
c. 23.3% and $7.00.
d. 19.4% and $5.83.
e. None of the above.

PRACTICE QUESTION#1

Which of the following statements regarding how plant costs are allocated between branded and private-label footwear is false?

- The total amount the company spends for production-run set-up is allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 80% of the total pairs produced at a plant are branded then 80% of total production run set-up costs are allocated to branded production.
- Total plant maintenance costs are allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 90% of the total pairs produced at a plant are branded then 90% of total plant maintenance costs are allocated to branded production.
- Annual depreciation costs are allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 85% of the total pairs produced at a plant are branded then 85% of annual depreciation costs are allocated to branded production.
- Annual plant supervision costs are allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 95% of the total pairs produced at a plant are branded then 95% of annual plant supervision costs are allocated to branded production.
- The total amount the company spends for best practices training is allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 88% of the total pairs produced at a plant are branded then 88% of best practices training costs are allocated to branded production.

PRACTICE QUESTION#2

Assume a company has 10 million shares of stock outstanding and that its Income Statement for Year 12 is as follows:

Income Statement Data	Year 12 (in 000s)
Net Revenues from Footwear Sales	$ 330,000
Cost of Pairs Sold	240,000
Warehouse Expenses	15,000
Marketing Expenses	35,000
Administrative Expenses	8,000
Operating Profit (Loss)	32,000
Interest Income (expenses)	(10,000)
Pre-tax Profit (Loss)	22,000
Income Taxes	6,600
Net Profit (Loss)	$ 15,400

Based on the above income statement data, the company's operating profit margin and EPS are

- 9.70% and $1.54.
- 9.70% and $2.20.
- 6.67% and $1.54.
- 9.70% and $3.20.
- None of the above.

PRACTICE QUESTION#3

Which of the following statements regarding your company's administrative costs is false?

- The company's accounting system allocates all administrative expenses to branded footwear; no administrative expenses are allocated to private-label footwear.
- Administrative expenses are allocated to each region based on each region's percentage of total companywide branded sales; thus, if 24% of the company's branded sales are in Asia-Pacific, then Asia-Pacific is allocated 24% of companywide administrative expenses.
- Within a region, administrative expenses are allocated between online branded sales and wholesale branded sales based on their respective proportion of total branded sales in the region; thus if 80% of total branded sales in a region were sales to area retailers, then 80% of the region's total administrative expenses would be allocated to the wholesale segment and 20% would be allocated to the Internet segment.
- The “Other Corporate Overhead” category of administrative costs always averages $1 per pair of plant capacity (not including overtime); other Corporate Overhead changes by $1 per pair in the same year as any new plant capacity comes online (new or used) and in the same year that any capacity is sold off to the merchants of used footwear-making equipment.
- Administrative costs are allocated between branded production and private-label production according to their respective percentages of total pairs sold.thus, if 65% of the total pairs sold are branded then 65% of annual administrative costs are allocated to branded footwear.

PRACTICE QUESTION#4

Assume a company has total administrative expenses of $5.0 million annually and its shipments to retailers are as follows:

	Year 12
North America	
Branded	1,200,000
Private-label	250,000
Europe-Africa	
Branded	1,200,000
Private-label	250,000
Asia-Pacific	
Branded	800,000
Private-label	250,000
Latin America	
Branded	800,000
Private-label	250,000
Totals	
Branded	4,000,000
Private-label	1,000,000

Then the company's $5.0 million in total administrative expenses would result in

- allocations of $1.25 million in administrative expenses to each of the four regions.
- administrative expenses of $1.25 per branded pair and $0.00 per private-label pair in all four geographic regions.
- administrative expenses of $0.1.20 per branded pair in North America and Europe-Africa and $0.1.30 per branded pair in the Latin America and Asia-Pacific regions.
- $4 million in administrative expenses being allocated to branded footwear and $1 million to private-label footwear.
- None of the above.

PRACTICE QUESTION#5

Which one of the following actions is least likely to result in lower production costs per branded pair at one of your company's plants?

- The installation of plant upgrade option B
- A 3% increase in the annual base wage that is accompanied by a 2.5% increase in worker productivity
- Increased spending for best practices training
- Reducing the number of branded models/styles produced from 350 to 250
- A lower percentage use of superior materials

PRACTICE QUESTION#6

When exchange rate shifts result in a weaker US$ and a stronger euro, then the euros collected on footwear sales in Europe-Africa, when converted into US$,

- result in foreign exchange gains that have the effect of enhancing company revenues and profits.
- result in foreign exchange losses that have the effect of reducing company revenues and profits.
- result in foreign exchange losses that have the effect of enhancing company revenues and profits.
- result in foreign exchange gains that have the effect of reducing company revenues and profits.
- None of the above is accurate.

PRACTICE QUESTION#7

If a company generates revenues of $270 million in Year 11, revenues of $300 million in Year 12, and revenues of $320 million in Year 13, then its cash receipts from footwear sales will be

- $295 million in Year 13.
- $270 million in Year 11, $300 million in Year 12, and $320 million in Year 13.
- $270 million in Year 12, $300 million in Year 13, and $320 million in Year 14.
- $315 million in Year 13.
- $290 million in Year 13.

PRACTICE QUESTION#8

Given the following Year 12 Financial Statement data for a footwear company:

Income Statement Data			**Year 12 (in 000s)**
Net Revenues from Footwear Sales			$ 300,000
Operating Profit (Loss)			70,000
Net Profit (Loss)			$ 42,000
Balance Sheet Data			
Cash on Hand			10,000
Total Current Assets			$ 70,000
Total Assets			300,000
Overdraft Loan Payable			5,000
1-Year Bank Loan Payable			10,000
Current Portion of Long-term Loans			17,000
Total Current Liabilities			48,000
L-T Bank Loans Outstanding			72,000
Shareholder Equity:	**Year 11 Balance**	**Year 12 Change**	
Common Stock	10,000	0	10,000
Additional Capital	108,000	0	108,000
Retained Earnings	30,000	32,000	62,000
Total Shareholder Equity	148,000	+32,000	180,000
Other Financial Data			
Depreciation			$11,500
Dividend payments			$10,000

Based on the above figures, the company's default-risk ratio in Year 12 was

- 1.31.
- 1.67.
- 1.56.
- 1.36.
- None of these.

PRACTICE QUESTION#9

Exchange rate shifts that cause the Brazilian real to be weaker versus the US$

- make the export of footwear from Latin American plants to North America less competitive and give rise to negative/unfavorable exchange rate cost adjustments.
- make the export of footwear from Latin American plants to North America less competitive and give rise to positive/unfavorable exchange rate cost adjustments.
- make the export of footwear from Latin American plants to North America more competitive and give rise to positive/favorable exchange rate cost adjustments.
- make the export of footwear from Latin American plants to North America more competitive and give rise to negative/favorable exchange rate cost adjustments.
- None of the above is accurate.

PRACTICE QUESTION#10

Given the following Year 12 balance sheet data for a footwear company:

Balance Sheet Data			
Cash on Hand			2,000
Total Current Assets			$ 78,000
Total Assets			315,000
Overdraft Loan Payable			4,000
1-Year Bank Loan Payable			8,000
Current Portion of Long-Term Loans			13,000
Total Current Liabilities			48,000
L-T Bank Loans Outstanding			105,000
Shareholder Equity:	**Year 11 Balance**	**Year 12 Change**	
Common Stock	10,000	0	10,000
Additional Capital	100,000	0	100,000
Retained Earnings	30,000	22,000	52,000
Total Shareholder Equity	140,000	+22,000	162,000

Based on the above figures, the company's debt-assets ratio is

- 33.3%.
- 41.3%.
- 37.5%.
- 40.0%.
- None of these.

PRACTICE QUESTION#11

Given the following Year 12 Financial Statement data for a footwear company:

Income Statement Data			**Year 12 (in 000s)**
Net Revenues from Footwear Sales			$ 340,000
Operating Profit (Loss)			80,000
Net Profit (Loss)			$ 49,000
Balance Sheet Data			
Cash on Hand			3,000
Total Current Assets			$ 70,000
Total Assets			310,000
Overdraft Loan Payable			1,000
1-Year Bank Loan Payable			16,000
Current Portion of Long-term Loans			10,000
Total Current Liabilities			51,000
L-T Bank Loans Outstanding			70,000
Shareholder Equity:	**Year 11 Balance**	**Year 12 Change**	
Common Stock	10,000	0	10,000
Additional Capital	120,000	0	120,000
Retained Earnings	30,000	29,000	59,000
Total Shareholder Equity	160,000	+29,000	189,000

Based on the above figures, the company's ROE in Year 12 was

- 42.3%.
- 14.0%.
- 28.1%.
- 25.9%.
- None of these.

PRACTICE QUESTION#12

Given the following exchange rate changes:

	Year 1	**Year 2**
Euros (€) per US$	0.8210	0.8185
Sing$ per Brazilian real	0.5660	0.5710
Brazilian real per euro (€)	3.7050	3.7150
US$ per Sing$	0.5910	0.5880

Then it follows that:

- The euro has grown stronger versus the US$.
- The Brazilian real has grown weaker against the Sing$.
- The Brazilian real has grown stronger versus the euro.
- The euro has grown weaker against the Brazilian real.
- The Sing$ has grown stronger versus the US$ and the Brazilian real.

PRACTICE QUESTION#13

If a company adds new plant capacity at a cost of $45 million, then its annual depreciation costs will rise by

- $1,800,000.
- $2,250,000.
- $180,000.
- $225,000.
- None of these.

PRACTICE QUESTION#14

If a company spends $5 million on advertising in a given geographic region, sells 600,000 branded pairs online in the region, and sells 2.4 million branded pairs to footwear retailers in the region, then

- 20% of the company's advertising expenditures would be allocated to Internet marketing and advertising costs per online pair sold would be $1.67.
- 20% of the company's advertising expenditures would be allocated to Internet marketing and advertising costs per online pair sold would be $1.60.
- 25% of the company's advertising expenditures would be allocated to Internet marketing and advertising costs per online pair sold would be $0.60.
- advertising costs per pair sold online would be $1.67 and advertising costs per pair sold to retailers would be $0.80.
- None of these.

PRACTICE QUESTION#15

In supplying private-label footwear to chain retailers, the sizes of a company's margins over direct costs should be viewed as

- the net profit a company earns on private-label sales.
- the money available to add to the company's retained earnings.
- free cash flow, to be used as the company sees fit.
- how much private-label sales added to the company's pretax profits, assuming that the company's margins on branded footwear were sufficient to cover all administrative expenses and all interest costs.
- how much the company received from private-label sales over and above materials costs and direct labor costs—these dollars can be used to help cover the company's income taxes and dividend payments.

PRACTICE QUESTION#16

Assume a company's Income Statement for Year 12 is as follows:

Income Statement Data	**Year 12 (in 000s)**
Net Revenues from Footwear Sales	$ 330,000
Cost of Pairs Sold	240,000
Warehouse Expenses	15,000
Marketing Expenses	35,000
Administrative Expenses	8,000
Operating Profit (Loss)	32,000
Interest Income (expenses)	(10,000)
Pre-tax Profit (Loss)	22,000
Income Taxes	6,600
Net Profit (Loss)	$ 15,400

Based on the above data, which of the following statements is false?

- Cost of pairs sold are 72.7% of net revenues.
- Warehouse expenses are 4.5% of net revenues.
- Marketing costs are 10.6% of net revenues.
- Administrative expenses are 2.4% of net revenues.
- Interest expenses are 2.8% of net revenues.

PRACTICE QUESTION#17

Assume a company's Income Statement for Year 12 is as follows:

Income Statement Data	**Year 12 (in 000s)**
Net Revenues from Footwear Sales	$ 290,000
Cost of Pairs Sold	180,000
Warehouse Expenses	16,000
Marketing Expenses	42,000
Administrative Expenses	8,000
Operating Profit (Loss)	44,000
Interest Income (expenses)	(10,000)
Pre-tax Profit (Loss)	34,000
Income Taxes	10,200
Net Profit (Loss)	$ 23,800

Based on the above income statement data, the company's interest coverage ratio is

- 2.38.
- 290.0.
- 4.40.
- 3.40.
- None of the above.

PRACTICE QUESTION#18

If a company pays a production worker a base wage of $3,000 and a piecework incentive of $0.25 per pair, if a production worker's annual productivity is 3,000 pairs per year, and if a plant's reject rate averages 5%, then the average annual compensation of production workers would be

- $3,450.
- $3,712.50.
- $3,750.
- $3,850.
- None of the above.

PRACTICE QUESTION#19

The accounts payable entry on the company's balance sheet represents

- the amount due for income taxes on prior-year profits.
- the amounts due shareholders for dividends declared the prior-year and payable in the current year.
- the amounts due for interest on loans outstanding that becomes due in the first quarter of the upcoming year, plus the amount that the company has designated to be put into its retained earnings account.
- 25% of the year's materials costs incurred in making branded and private-label footwear that are owed to suppliers and that will be paid for in the first quarter of the upcoming year (payments for materials delivered by suppliers are not due and payable for 90 days following delivery).
- the principal payments due on loans outstanding.

PRACTICE QUESTION#20

Which one of the following is included as part of a company's cost in supplying private-label footwear to chain retailers?

- Advertising expenditures
- Costs for celebrity endorsement contracts
- Expenditures for retailer support
- Plant supervision costs, plant maintenance, and plant depreciation
- Administrative expenses