1. Which of the following would be a use for the Statement of Cash Flows?

1. The condition of the entities fixed assets.
2. Return on investments.
3. Cash lost due to poor internal controls.
4. The company’s ability to pay dividends.

2. Which of the following would **NOT** be a use for the Statement of Cash Flows?

1. Entity’s ability to generate future cash flows.
2. Entity’s ability to pay dividends and obligations.
3. Reasons for difference between net income and net cash provided (used) by operating   
   activities.
4. Cash lost from theft due to poor internal controls.

3. How is the cash paid to purchase land reported in the statement of cash flows?

A) Cash outflow from financing activities

B) Schedule of noncash investing and financing activities

C) Cash outflow from investing activities

D) Cash inflow from operating activities

4. The following data are available for Sampson Corporation.  
Net income $200,000  
Depreciation expense $60,000  
Dividends paid $90,000  
Loss on sale of land $15,000

Decrease in accounts receivable $30,000  
Decrease in accounts payable $45,000  
Net cash provided by operating activities is:

1. $140,000
2. $260,000
3. $160,000
4. $240,000

Solution: $200,000 + $60,000 + $15,000 + $30,000 - $45,000 = $260,000

5. The following data are available for Alamo Corporation.  
Sale of land $225,000  
Sale of equipment $130,000  
Issuance of common stock $140,000  
Purchase of equipment $70,000  
Payment of cash dividends $120,000  
Net cash provided by investing activities is:

1. $285,000
2. $260,000
3. $305,000
4. $425,000

Solution: $225,000 + $130,000 - $70,000 = $285,000

6. Adama Company reported a net loss of $6,000 for the year ended December 31, 2014. During the year, accounts receivable increased $15,000, merchandise inventory decreased $12,000, accounts payable decreased by $20,000, and depreciation expense of $12,000 was recorded. During 2014, operating activities

1. used net cash of $17,000.
2. used net cash of $29,000.
3. provided net cash of $24,000.
4. provided net cash of $21,000.

Solution: ($6,000) + ($15,000) + $12,000 + ($20,000) + $12,000 = ($17,000)

7. Wilson Company reported net income of $105,000 for the year ended December 31, 2014. During the year, inventories decreased by $15,000, accounts payable decreased by $20,000, depreciation expense was $18,000 and a gain on disposal of equipment of $9,000 was recorded. Net cash provided by operating activities in 2014 using the indirect method was

1. $101,000
2. $109,000
3. $120,000
4. $118,000

Solution: $105,000 + $15,000 - $20,000 + $18,000 - $9,000 = $109,000

8. Valdez Co. sold land that had cost $48,000 for $60,000 cash. Which of the following statements is true about this transaction?

A) The $12,000 gain would be subtracted from net income in the operating activities section using the direct method.

B) $48,000 would appear as a cash inflow from investing activities and $12,000 would be added in the operating activities section using the indirect method.

C) $60,000 would appear as a cash inflow from investing activities.

D) The $12,000 gain would be subtracted from net income in the operating activities section prepared using the indirect method and $60,000 would be reported as a cash inflow from investing activities.

9. Which of the following statements best explains the correct handling of depreciation on the statement of cash flows when using the indirect method?

A) Depreciation expense is a noncash expense that is added to net income to derive cash flows from operating activities.

B) Depreciation is subtracted in the cash flows from investing activities section because it reduces the book value of the corresponding plant asset.

C) Depreciation is subtracted from net income because it causes a loss when the related plant asset is sold.

D) Depreciation adds to the company's Cash account to help pay for new equipment.

10. Fave Motion Pictures sells movie tickets for $10 per movie patron. Variable costs are $7.50 per movie patron and fixed costs are $50,000 per month. The company's relevant range extends to 35,000 movie patrons per month. What is Fave Motion Pictures' projected operating income if 25,000 movie patrons see movies during a month?

A) $62,500

B) $12,500

C) $250,000

D) $200,000

Answer: B

Explanation: B)

Sales $10

Less Variable costs 7.50

= Contribution Margin 2.50 × 25,000 = $62,500

Less Fixed 50,000

Operating Income $12,500

11. LaComedia Dinner Theater sells tickets for dinner and a show for $40 each. The cost of providing dinner is $26 per ticket and the fixed cost of operating the theater is $100,000 per month. The company can accommodate 12,000 patrons each month. What is the contribution margin per patron?

A) $2.86

B) $14.00

C) $0.35

D) $26.00

Answer: B

Explanation: B)

Sales $40

Less Variable costs 26

= Contribution Margin 14

12. LaComedia Dinner Theater sells tickets for dinner and a show for $40 each. The cost of providing dinner is $26 per ticket and the fixed cost of operating the theater is $100,000 per month. The company can accommodate 12,000 patrons each month. What is the projected monthly income if 10,000 patrons visit the theater each month?

A) $68,000

B) $140,000

C) $240,000

D) $40,000

Answer: D

Explanation: D)

Sales $40

Less Variable costs 26

= Contribution Margin 14 × 10,000 = $140,000

Less fixed = 100,000

Operating Income $40,000

Bernard Corporation gathered the following information for the year just ended:

|  |  |
| --- | --- |
| **Fixed costs:** |  |
| Manufacturing | $120,000 |
| Marketing | 42,000 |
| Administrative | 22,000 |
| **Variable costs:** |  |
| Manufacturing | $80,000 |
| Marketing | 22,000 |
| Administrative | 38,000 |

13. During the year, Bernard produced and sold 50,000 units of product at a selling price of $9.00 per unit. There was no beginning inventory of product at the start of the year.

What is the contribution margin for the year?

A) $126,000

B) $310,000

C) $450,000

D) $266,000

Answer: B

Explanation: B)

Variable costs: Manufacturing $80,000

Marketing 22,000

Administrative 38,000

Total $140,000

Sales $9 × 50,000 = $450,000

Less Variable costs 140,000

Contribution Margin $310,000

14. Using the same facts as question 4, what is the operating income (loss) for the year?

A) $266,000

B) $450,000

C) $126,000

D) $310,000

Answer: C

Explanation: C)

Variable costs: Manufacturing $80,000

Marketing 22,000

Administrative 38,000

Total $140,000

Sales $9 × 50,000 = $450,000

Less Variable costs 140,000

Contribution Margin $310,000

Less Fixed $184,000

Operating Income $126,000

15. The following selected data relates to Ivory Corporation:

|  |  |
| --- | --- |
| Total fixed costs | $25,000 |
| Selling price per unit | $22 |
| Variable costs per unit | $15 |

Assuming 8,500 units are sold, what is the contribution margin?

A) $314,500

B) $84,500

C) $59,500

D) $34,500

Answer: C

Explanation: C)

Sales $22

Less Variable costs 15

= Contribution Margin 7 × 8,500 = $59,500

16. Using the same facts as question 6, if sales revenue per unit increases to $27 and 8,500 units are sold, what is the contribution margin?

A) $357,000

B) $77,000

C) $59,500

D) $102,000

Answer: D

Explanation: D)

Sales $27

Less Variable costs 15

= Contribution Margin 12 × 8,500 = $102,000

17. The Muffin House produces and sells a variety of muffins. The selling price per dozen is $15, variable costs are $9 per dozen, and total fixed costs are $4,200. How many dozen muffins must The Muffin House sell to breakeven?

A) 10,500

B) 700

C) 280

D) 175

Answer: B

Explanation: B)

Sales $15

Variable costs 9

Contribution Margin $ 6

Fixed Expenses $4,200 divided by Contribution Margin $6 = 700 Breakeven

18. The Muffin House produces and sells a variety of muffins. The selling price per dozen is $15, variable costs are $9 per dozen, and total fixed costs are $4,200. What are breakeven sales in dollars?

A) $10,500

B) $2,625

C) $700

D) $6,300

Answer: A

Explanation: A)

Sales $15

Variable costs 9

Contribution Margin $ 6

Fixed Expenses $4,200 divided by Contribution Margin $6 = 700 Breakeven

Breakeven Sales units 700 × $15 = $10,500 Breakeven sales dollars

Q. Martin Enterprises provides the following information about its single product.

|  |  |
| --- | --- |
| Targeted operating income | $50,830 |
| Selling price per unit | $6.55 |
| Variable cost per unit | $4.25 |
| Total fixed cost | $94,070 |

19. What is the contribution margin per unit?

A) $0.35

B) $10.80

C) $2.30

D) $4.25

Answer: C

Explanation: C)

Sales $6.55

Less Variable costs 4.25

= Contribution Margin $2.30

20. Using the same facts as question 10, how many units must be sold to earn the targeted operating income?

A) 13,417

B) 63,000

C) 40,900

D) 22,100

Answer: B

Explanation: B)

Sales $6.55

Less Variable costs 4.25

= Contribution Margin $2.30

Fixed expenses $94,070 + Target Income $50,830 = $144,900 divided by Contribution Margin

$2.30 = 63,000 BE units

21. Star Corporation management has budgeted the following amounts for its next fiscal year:

|  |  |
| --- | --- |
| Total fixed expenses | $450,000 |
| Selling price per unit | $50 |
| Variable expenses per unit | $25 |

If Star Corporation spends an additional $20,000 on advertising, sales volume should increase by 3,000 units. What effect will this have on operating income?

A) Increase of $75,000

B) Increase of $55,000

C) Decrease of $55,000

D) Decrease of $75,000

Answer: B

Explanation: B)

Sales $50.00

Less Variable expenses 25.00

Contribution Margin $25.00

× Add'l units × 3,000

Add'l CM $75,000

Less Advertising expense 20,000

= Operating Income Increase $55,000

22. Wallace Incorporated sells its products for $520 per unit. Variable costs are currently 45% of sales revenue. Fixed expenses are $125,840 per year.

What is the breakeven point in units at the current selling price?

A) 167 units

B) 286 units

C) 440 units

D) 538 units

Answer: C

Explanation: C)

Sales Price $520

× Variable Costs 45%

VC = $234

Sales Price $520

Less VC 234

Contribution Margin $286

Fixed Cost $125,840 / CM 286 = 440 units

23. Deen Enterprises currently sells its products for $1,200 per unit. Management is contemplating a 10% increase in the selling price for the next year. Variable costs are currently 40% of sales revenue and are not expected to change next year. Fixed expenses are $147,000 per year.

What is the breakeven point in units at the anticipated selling price per unit next year?

A) 175 units

B) 82 units

C) 245 units

D) 408 units

Answer: A

Explanation: A)

Sales price $1,200

× increase × 1.10%

New Sales Price $1,320

Sales Price $1,200 × 40%

Variable % = $480 Variable costs

Sales Price $1,320

Less Variable costs 480

Contribution Margin $840

Fixed exp $147,000 / $840 CM = 175 BE units

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 24. | (Ignore income taxes in this problem.) Beaver Corporation is investigating the purchase of a new threading machine that costs $18,000. The machine would save about $4,000 per year over the present method of threading component parts, and would have a salvage value of about $3,000 in 6 years when the machine would be replaced. The company's required rate of return is 12%. The machine's net present value is closest to:      |  |  | | --- | --- | | A. | $1,556 |  |  |  | | --- | --- | | **B.** | $(35) |  |  |  | | --- | --- | | C. | $11,000 |  |  |  | | --- | --- | | D. | $8,000 | | | | | 25. | | Ignore income taxes in this problem.) Frick Road Paving Corporation is considering an investment in a curb-forming machine. The machine will cost $180,000, will last 10 years, and will have a $30,000 salvage value at the end of 10 years. The machine is expected to generate net cash inflows of $40,000 per year in each of the 10 years. Frick's discount rate is 10%. The net present value of the proposed investment is closest to:    A. $250,000  B.$65,800  C. 245,800  D.77,380 | | | 26. | | (Ignore income taxes in this problem.) The following data on a proposed investment project have been provided:     The working capital would be released for use elsewhere at the end of the project. The net present value of the project is closest to:   1. $3,730 2. $0 3. $32,450 4. $ 88,370 | | |
|  |  |

27. (Ignore income taxes in this problem.) Galindo Long-Haul, Inc., is considering the purchase of a tractor-trailer that would cost $178,848, would have a useful life of 8 years, and would have no salvage value. The tractor-trailer would be used in the company's hauling business, resulting in additional net cash inflows of $36,000 per year. The internal rate of return on the investment in the tractor-trailer is closest to:

A. 10%

B. 15%

C. 12%

D. 13%

Factor of the internal rate of return = Investment required ÷ Annual net cash inflow  
= $178,848 ÷ $36,000 = 4.968  
This factor is the present value of an annuity for 8 periods at 12% per period

28. (Ignore income taxes in this problem) The management of Favreau Corporation is considering the purchase of a machine that would cost $310,464 and would have a useful life of 5 years. The machine would have no salvage value. The machine would reduce labor and other operating costs by $84,000 per year. The internal rate of return on the investment in the new machine is closest to:

A. 12%

B. 14%

C. 11%

D.13%

Factor of the internal rate of return = Investment required ÷ Annual net cash inflow  
= $310,464 ÷ $84,000 = 3.696  
This factor is the present value of an annuity for 5 periods at 11% per period.

29. Porter Co. is analyzing two projects for the future. Assume that only one project can be selected.

|  |  |  |
| --- | --- | --- |
|  | Project X | Project Y |
| Cost of machine | $68,000 | $60,000 |
| Net cash flow: |  |  |
| Year 1 | 24,000 | 4,000 |
| Year 2 | 24,000 | 26,000 |
| Year 3 | 24,000 | 26,000 |
| Year 4 | 0 | 20,000 |

The payback period in years for Project X is:

A) 2.00.

B) 3.83.

C) 3.50.

D) 2.83.

E) 4.00.

Answer: D

Explanation: Project X payback period: $68,000/$24,000 per year = 2.83 years

Difficulty: 2 Medium