

LMM330 Managerial Budgeting and Accounting Mid-Term Quiz ANSWER KEY

30-points

All multiple choice = 1-point

1. The accounting concept requiring that an accounting system reflect information relating only to those economic events pertaining to a particular entity is the:
 - A) business entity concept
 - B) going entity concept
 - C) monetary unit concept
 - D) periodicity concept

2. According to Concept Statement #2 accounting information should be:
 - A) Relevant and Reliable
 - B) Responsible and Reconcilable
 - C) Accurate and Meaningful
 - D) Accurate and Timely

3. A sporting-goods store sells a set of golf clubs to a customer for cash. This is an example of a(n):
 - A) planning activity
 - B) investing activity
 - C) financing activity
 - D) operating activity

4. Which of the following ratios measures the profitability of the money invested in the firm's assets?
 - A) Quick Ratio
 - B) Return on Owners' Equity
 - C) Gross Margin Ratio
 - D) Return on Investment

5. Customer response time is part of which of the following balanced scorecard perspectives?
 - A) Financial Perspective
 - B) Learning and Growth Perspective
 - C) Customer Perspective
 - D) Internal Perspective

6. At May 31, Allegro Company had a general ledger cash balance of \$7,400. At the end of May, the bank statement had a balance of \$7,500. Deposits in transit amounted to \$1,000 and there was a service charge of \$10. Outstanding checks totaled \$1,110. What is the correct amount of cash?

- A) \$7,390
- B) \$7,000
- C) \$6,390
- D) \$6,380

7. Short-term decision making differs from normal operating decision in two ways;

which of the following are the two ways?

- A) Short-term decision can not be planned and address routine operating decision.
- B) Short-term operating decisions are unique and can not be planned
- C) Short-term operating decisions are routine and anticipated
- D) Short-term operating decisions are unique and will expand plant capacity

8. The salary of an executive who decides to quit her job and return to school full time is a(n):

- A) sunk cost
- B) incremental cost
- C) opportunity cost
- D) incremental revenue

9. Panascope manufactures high-definition TVs (HDTVs). It costs Panascope \$1,500 to produce one HDTV. Panascope, planning to "make hay while the sun shines" has priced its HDTVs at \$12,000. This is an example of which pricing strategy?

- A) penetration pricing
- B) life-cycle pricing
- C) price skimming
- D) pioneer price

10. The final step in a master budget is the preparation of the:

- A) cash budget
- B) sales budget
- C) pro forma financial statements
- D) selling and administrative costs budget

11. Accountants use the term "credit" to refer to
- A) a firm's good accounting events
 - B) a reduction in amounts owed
 - C) events that increases in accounts
 - D) an amount entered on the right-hand side of an account
12. Expenses are increased with _____ because they _____ owners' equity.
- A) debits, decrease
 - B) credits, increase
 - C) debits, increase
 - D) credits, decrease
13. The estimated amount of overhead per cost driver is referred to as the:
- A) predetermined overhead rate
 - B) accounting cost rate
 - C) overhead cost pool
 - D) activity cost pool
14. The strategy whereby a company uses the current period's budget as a starting point in preparing next period's budget is referred to as:
- A) mandated budgeting
 - B) zero-based budgeting
 - C) incremental budgeting
 - D) participative budgeting

Question #15 = 6-points

15. Using the financial statements below calculate each of the following ratios and briefly describe what the results of each indicate.

- (a.) Return on Investment
- (b.) Quick Ratio
- (c.) Debt to Equity Ratio
- (d.) Return on Owners' Equity
- (e.) Accounts Receivable Turnover
- (f.) Inventory Turnover

Banner Corporation
Balance Sheet
December 31, 2008

<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash	\$ 20,000	Accounts Payable	\$ 140,000
Accounts Receivable	100,000	Wages Payable	<u>200,000</u>
Inventory	<u>300,000</u>	Total Current Liabilities	\$ 340,000
(2007 Y.E. Inv.= \$350K)			
Total Current Assets	\$420,000		
		<u>Long-Term Liabilities</u>	
<i>Property, Plant & Equipment</i>		Long Term Notes Payable	\$1,000,000
Land	\$300,000	Total Liabilities	\$1,340,000
Buildings	800,000		
Equipment	<u>90,000</u>		
Total Property Plant & Equipment	<u>\$1,190,000</u>	Owners' Equity	<u>\$ 270,000</u>
Total Assets	\$1,610,000	Total Liabilities and Owners' Equity	\$1,610,000
Total Assets 12/31/07	1,400,000	Accts Rec 12/31/07	\$75,000
Total Owners' Equity 12/31/07	\$250,000	Accts Pay 12/31/07	\$100,000
(Note: Inventory on 12/31/07 = \$350,000)			

Banner Corporation
Income Statement
For the year ended Dec 31, 2008

Sales	\$4,200,000
Cost of Goods Sold	<u>1,800,000</u>
Gross Margin	\$2,400,000
Operating Expenses	<u>1,800,000</u>
Operating Income	\$ 600,000

Tax Expense	<u>180,000</u>
Net Income	\$ 420,000

- a.) Return on Investment =
- b.) Quick Ratio =
- c.) Debt to Equity =
- d.) Return on Equity =
- e.) Accounts Receivable Turnover =
- f.) Inventory Turnover =

Question #16 = 5-points (1/2-pt. each)

16. Match the following terms with the descriptions below.

- A. Fixed Cost
- B. Mixed Cost
- C. Fixed Revenue
- D. Mixed Revenue
- E. Variable Cost
- F. Variable Revenue
- G. Revenue Behavior
- H. Cost Behavior
- I. Activity Driver
- J. Relevant Range

- _____ 1. A revenue that changes in direct proportion to the change in activity.
- _____ 2. Basis that reflect the consumption or provision of resources.
- _____ 3. How a cost reacts to change in the level of operating activity
- _____ 4. A cost that does not change in total as the amount of activity changes
- _____ 5. A cost that varies, but not proportionately, to a change in activity.
- _____ 6. The span of operating activity that is considered normal for a company.
- _____ 7. How a revenue reacts to a change in the level of operating activity.
- _____ 8. A cost that changes in direct proportion to the change in activity.
- _____ 9. A revenue that changes, but not proportionately, to a change in activity.
- _____ 10. A revenue that does not change in total as activity changes.

Essay Question #17 = 5-points

Limit: 100-150 words

17. What is the distinction between penetrating and predatory pricing?