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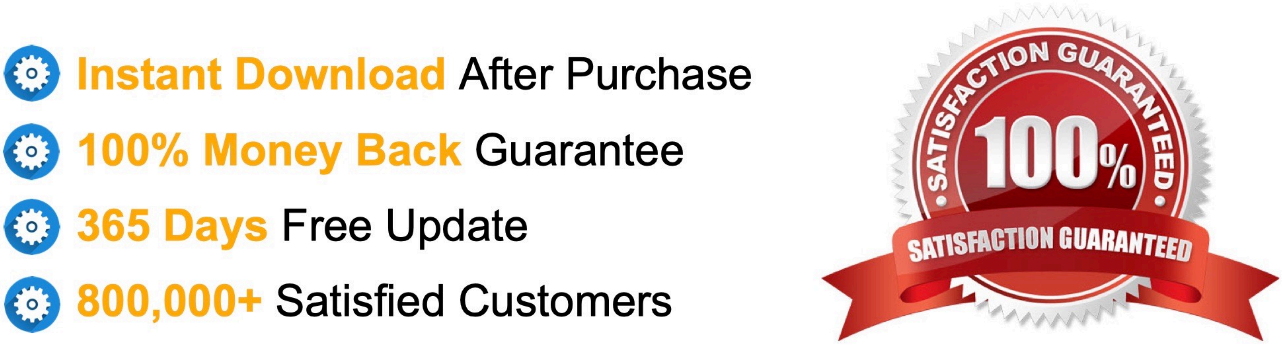

QUESTION 1

Project 1 has an expected NPV of $120,000 and a standard deviation of $200,000. Project 2 has an expected NPV of $100,000 and a standard deviation of $150,000. The correlation between these two projects is 0.80. What is the coefficient of variation for the portfolio of projects?

A. 1.67

B. 1.59

C. 1.51

D. 0.63

Correct Answer: C

The coefficient of variation is useful when the rates of return and standard deviations of two investments differ. It measures the risk per unit of return by dividing the standard deviation by the expected return. Thus, for Project 1, dividing $200,000 by $120,000 produces a coefficient of 1.67. For Project 2, the calculation is to divide $150,000 by $100,000, or 1.50. If the two projects had perfect correlation (=1.0), then you could combine the calculations ($350,000 + $220,000 = 1.59). However, with a correlation of less than one, the risk will be something less than 1.59.

QUESTION 2

If a worker encounters a production kanban at his/her workstation,the worker should

A. Release the requested item to the next stage in the process.

B. Begin manufacturing the requested item.

C. Initiate a purchase order with the supplier of the requested item .

D. Confirm the amount of the item requested and present the kanban to the production supervisor.

Correct Answer: B

In a kanban inventory control system,a production kanban is an indication to a worker to begin producing the item referred to on the kanban.

QUESTION 3

Two companies produce and sell the same product in a competitive industry. Thus, the selling price of the product for each company is the same. Company 1 has a contribution margin ratio of 40% and fixed costs of $25 million. Company 2 is more automated, making its fixed costs 40% higher than those of Company 1. Company 2 also has a contribution margin ratio that is 30% greater than that of Company 1. By comparison, Company 1 will have the breakeven point in terms of dollar sales volume and will have the dollar profit potential once the indifference point in dollar sales volume is exceeded.

	List A	List B
A.	Lower	Lesser
B.	Lower	Greater
C.	Higher	Lesser
D.	Higher	Greater

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

QUESTION 4

The Childers Company sells widgets. The company breaks even at an annual sales volume of 75.000 units Actual annual sales volume was 100,000 units, and the company reported a profit of $200,000. The annual fixed costs for the Childers Company are

A. $800,000

B. $600,000

C. $75,000

D. Insufficient information to determine amount of fixed costs

Correct Answer: B

QUESTION 5

A disadvantage of the net present value method of capital expenditure evaluation is that it

A. Is calculated using sensitively analysis.

B. Computes the true interest rate.

C. Does not provide the true rate of return on investment.

D. Is difficult to apply because it uses a trial-and-error approach.

Correct Answer: C

The NPV is broadly defined as the excess of the present value of the estimated net cash inflows over the net cost of the investment. A discount rate has to be stipulated by the person conducting the analysis. A disadvantage is that it does not provide the true rate of return for an investment, only that the rate of return is higher than a stipulated discount rate (which may be the cost of capital).

QUESTION 6

Gleason Co. has two products, a frozen dessert and ready-to-bake breakfast rolls, ready for introduction. However, plant capacity is limited, and only one product can be introduced at present. Therefore, Gleason has conducted a market study, at a cost of $26,000, to determine which product will be more profitable. The results of the study follow.

Sales of Desserts at $1.80/unit		Sales of Rolls at $1.20/unit	
Volume	Probability	Volume	Probability
250,000	.30	200,000	.20
300,000	.40	250,000	.50
350,000	.20	300,000	.20
400,000	.10	350,000	.10

The costs associated with the two products have been estimated by Gleason\\'s cost accounting department and are shown as follows:

	Dessert	Rolls
Ingredients per unit	$ .40	$ .25
Direct labor per unit	.35	.30
Variable overhead per unit	.40	.20
Production tooling*	48,000	25,000
Advertising	30,000	20,000

*Gleason treats production tooling as a current operating expense rather than capitalizing it as a fixed

asset.

The cost incurred by Gleason for the market study is a(n)

A. Incremental cost.

B. Prime cost.

C. Opportunity cost.

D. Sunk cost.

Correct Answer: D

A sunk cost is a previously incurred cost that is the result of a past irrevocable management decision. Nothing can be done in the future about sunk costs. The market study cost is an example.

QUESTION 7

The capital budgeting process contains several stages. At which stage are financial and non financial factors addressed?

A. Identification and definition.

B. Selection.

C. Search.

D. Information-acquisition.

Correct Answer: D

During the information-acquisition stage of the capital budgeting process, quantitative financial factors are given the most scrutiny. These include initial investment and periodic cash inflow. Nonfinancial measures, both quantitative and qualitative, are also identified and addressed. Examples include the need for additional training on new equipment and uncertainty about technological developments and competitors\\' actions.

QUESTION 8

In marketing toothbrushes as its single product, Hollow Company uses one marketing mix, believing all toothbrush users have similar needs. Such an approach to target marketing is called

A. Mass marketing

B. Niche marketing.

C. Micromarketing.

D. Concentrated marketing.

Correct Answer: A

When the needs of all customers are considered to be the same, the product and the customers do not need to be differentiated, and the appropriate strategy is mass marketing.

QUESTION 9

Best Computers believes that its collection costs could be reduced through modification of collection procedures. This action is expected to result in a lengthening of the average collection period from 28 days to 34 days; however, there will be no change in uncollectible accounts. The compass budgeted credit sales for the coming year are $27 000,000, and short-term interest rates are expected to average 8%. To make the changes in collection procedures cost beneficial, the minimum savings in collection costs (using a 360dayyear) forth coming year would have to be

A. $30000

B. $360,000

C. $180,000

D. $36,000

Correct Answer: D

Given sales of $27,000,000, the average amount of daily sales must be $75000 ($27,000,000 ii ?360 days). The increased accounts receivable balance is therefore $450 .000 ($75,000 x 6 days). With an additional $450,000 of capital invested in receivables, the compass interest cost will increase by $36,000 per year ($450,000 x 8%). Thus, the company must save at least $36,000 per year to justify the change in procedures.

QUESTION 10

Which of the following is not a risk of double-benefit positioning?

A. The brand image may become too narrow.

B. Customers may not believe the firm\\'s claims.

C. The brand image may become indistinct.

D. Customers may perceive that competitors also offer one of the benefits.

Correct Answer: D

Some market researchers argue that double-benefit market positioning is preferable, especially if customers perceive that competitors also provide a particular benefit. Thus, offering multiple benefits may be advantageous if the result is a more distinctive position for the product. The following are risks of this approach: (1) the brand image lacks charily in the minds of customers (under positioning), (2) the brand image is too narrow (over positioning), (3) the brand image may be confused in customers\\' perceptions because the value proposition has too many benefits (confused positioning), and (4) customers may not believe the firm\\'s claims (doubtful positioning).

QUESTION 11

The statement of income for Dimmell Co. presented below represented the operating result for the fiscal year just ended. Dimmell had sales of 1,800 tons of product during the current year. The manufacturing capacity of Dimmell\\'s facilities is 3.000 tons of product.

Dimmell Co.
Statement of Income
For the Year Ended December 31, 2002

Sales	$900,000
Variable costs	
Manufacturing	$315,000
Selling costs	180,000
Total variable costs	$495,000
Contribution margin	$405,000
Fixed costs	
Manufacturing	$ 90,000
Selling	112,500
Administration	45,000
Total fixed costs	$247,500
Net income before income taxes	$157,500
Income taxes (40%)	(63,000)
Net income after income taxes	$ 94,500

The breakeven volume in tons of product for 2002 is ?

A. 400 tons B. 1,100 tons

C. 900 tons

D. 550 tons

Correct Answer: B

QUESTION 12

Leland Manufacturing uses 10 units of Part Number KJ37 each month in the production of radar equipment. The unit cost to manufacture 1 unit of KJ37 is presented below.

Direct materials	$ 1,000
Materials handling (20% of direct material cost)	200
Direct labor	8,000
Manufacturing overhead (150% of direct labor)	12,000
Total manufacturing cost	$21,200

Material handling represents the direct variable costs of the Receiving Department that are applied to direct materials and purchased components on the basis of their cost. This is a separate charge in addition to manufacturing overhead. Leland\\'s annual manufacturing overhead budget is one-third variable and two4hirds fixed. Scott Supply, one of Leland\\'s reliable vendors. has offered to supply Part Number KJ37 at a unit price of $15,000.If Leland purchases the KJ37 units from Scott, the capacity Leland used to manufacture these parts would be idle. Should Leland decide to purchase the parts from Scott, the unit cost of KJ37 would

A. Increase by $4,800.

B. Decrease by $6,200.

C. Decrease by $3,200.

D. Change by some amount other than those given.

Correct Answer: A

In addition to the $15,000 purchase price, the company would still incur $8,000 per unit of unavoidable (fixed) manufacturing overhead (2/3 of $12,000). The materials handling charge of 20% of the purchase price of components would add another $3,000 per unit ($15,000 x .2). Therefore the unit cost of purchase would be $26,000)$15,000 +$8,000 + $3,000), which is $4,800 more than the current cost to manufacture.

QUESTION 13

Von Stutgatt International\\'s breakeven point is 8,000 racing bicycles and 12,000 5- speed bicycles. If the selling price and variable costs are $570 and $200 for a racer, and $180 and $90 for a 5-speed respectively, what is the weighted-average contribution margin?

A. $100

B. $145

C. $179

D. $202

Correct Answer: D

QUESTION 14

From an investor\\'s viewpoint, the least risky type of bond in which to invest is a(n)

A. Debenture bond

B. Deep discount bond.

C. Income bond

D. Secured bond.

Correct Answer: D

A secured bond is backed by tangible property, making it the safest type for the investor four listed.

QUESTION 15

A firm\\'s current ratio is 2to 1. Its bond indenture states that its current ratio cannot fall below 1.5 to 1.11 current liabilities are $200,000, the maximum amount of new short- term debt the firm can assume in or deer to finance invent Tory with out defaulting is

A. $200,000

B. $66,667

C. $266,667

D. $150,000

Correct Answer: A

If current liabilities are $200,000 and the current ratio (current assets/current liabilities) is 2.0, current assets must be $400,000. If short-term debt is used to finance new inventory, current assets and current liabilities will increase by the same amount. The amount of new debt corresponding to a current ratio of 1.5 maybe determined from the following formula equating current assets and current liabilities (let X= new inventory and new debt):

$$\begin{aligned} \$400{,}000 + X &= 1.5(\$200{,}000 + X) \\ 400{,}000 + X &= \$300{,}000 + 1.5X \\ X &= \$200{,}000 \end{aligned}$$

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