S.2. The summative tests have the following descriptions:

S.2.1. comprehensive enough to test the different levels of cognitive skills and knowledge of content; and

S.2.2. based on a well-designed Table of Specifications (TOS).

Samples of Examinations and TOS are provided below:

Cost Accounting and Control Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

AEC 08: Cost Accounting and Control

FINAL EXAMINATION
1st Semester, 2025-2026

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Process Costing	9	37.5%	16		1, 7	2, 3, 4, 5, 6, 8, 9, 33, 34, 35, 36, 37, 40, 41, 42				17*
Allocating Costs of Support Departments and Joint Products	6	25%	11	16, 18	10, 12, 14, 17	11, 13, 15, 38, 39				11
Standard Costing: A Functional-Based Control Approach	6	25%	10		19, 20, 21	23,	22, 24, 25, 26, 27, 28			10
Quality and Environmental Cost Management	3	12.5%	5		29, 30, 31		32			4*
TOTAL	24	100%s	42							42

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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Noted by:
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Dean, CBDEM

USM-EDU-F25-Rev.1.2021.06.10

University of Southern Mindanao
College of Business, Development Economics and Management
AEC 08: Cost Accounting and Control
FINAL EXAMINATION
1ST Semester, SY 2025-2026

General instructions:
1. Read instructions.
2. Use blue/black ballpen only.
3. No erasures and/or alterations allowed.
4. You are allowed to write and put marks on this questionnaire. You can also use the extra sheet as a solution paper. But do not detach the extra sheet.
5. Use your time wisely.

Shade the letter of your choice in the answer sheet.

1. Abnormal spoilage is treated differently from normal spoilage in what way?
   A. Equivalent units are calculated for abnormal spoilage but not for normal spoilage.
   B. Equivalent units are calculated for normal spoilage but not for abnormal spoilage.
   C. Normal spoilage is absorbed as part of the product cost but abnormal spoilage costs are treated separately.
   D. Abnormal spoilage is not assigned costs but normal spoilage is.

2. Allen Company has the following information for the Assembly Department for the month of October:

Materials purchased	$ 45,000
Materials used	49,000
Direct labor	30,000
Actual manufacturing overhead	56,000
Cost of goods completed and transferred to the Finishing Department (the next department)	125,000

Overhead rate is 200% of direct labor costs.
Allen Company uses a process-costing system for the Assembly Department. The journal entry to record materials purchased would include
   A. a debit to Materials Inventory for $45,000.
   B. a debit to Materials Inventory for $49,000.
   C. a credit to Accounts Payable for $49,000.
   D. both a debit to Materials Inventory for $49,000 and a credit to Accounts Payable for $49,000.

3. Using the above information, Allen Company uses a process-costing system for the Assembly Department. What is the total debit amount to Work in Process—Assembly for October?
   A. $125,000C. $139,000
   B. $131,000D. $109,000

4. Using the above information, Allen Company uses a process-costing system for the Assembly Department. The journal entry to record goods completed and transferred out of the Assembly Department and into the Finishing Department would include a
   A. debit to Finished Goods Inventory for $125,000.
   B. credit to Materials Inventory for $125,000.
   C. debit to Work in Process—Assembly for $125,000.
   D. debit to Work in Process—Finishing for $125,000.

5. Cadmium Corporation manufactures leather bags. The following information pertains to the month of August:

	Units
Work in process, August 1 (40% complete)	900
Started in August	4,000

Materials are added at the beginning of the process. If 3,700 units were completed during the month, ending work in process on August 31 is
   A. 1,200 units. C. 2,700 units.
   B. 2,000 units. D. 1,000 units.

6. Equivalent units express all activity of the period in terms of
   A. direct labor hours.
   B. partially completed units.
   C. fully completed units.
   D. fully completed and partially completed units

7. In a process-costing system, which of the following would be TRUE?
   A. There is no need to use time tickets to assign costs to processes.
   B. There is no need to track materials to processes.
   C. A process-costing system is more expensive to maintain because it has more work-in-process accounts.
   D. All of these choices

8. Julius Corporation's Mixing Department began January with 10,000 gallons of product (40% completed) in process. During January, Julius started 100,000 gallons of new product, of which 15,000 gallons remained in ending inventory (70% completed). If materials were added at the beginning of the process, how many equivalent units of production for conversion costs would there be for Julius using the FIFO costing method?
   A. 101,500 units
   B. 110,000 units
   C. 105,500 units
   D. 116,500 units
   E. None of these choices

9. Using the above information, if materials were added when the units are 50% complete, how many equivalent units of production for materials would there be for Julius Corporation using the FIFO costing method?
   A. 101,500 units
   B. 105,500 units
   C. 110,000 units
   D. 85,000 units
   E. None of these choices

10. A common cost occurs when
   A. only one product or service is benefited.
   B. different resources are used to produce one output.
   C. the same resource is used in the output of two or more outputs.
   D. a resource is used by two or more companies.

11. A company incurred $120,000 of common fixed costs and $180,000 of common variable costs. These costs are to be allocated to Departments XX and YY. Data on capacity provided and capacity used are as follows:

	Capacity Provided	Capacity Used
Department	in Hours	in Hours
XX	600	400
YY	300	400

Assume that common fixed costs are to be allocated to Departments XX and YY on the basis of capacity provided and that common variable costs are to be allocated to Departments XX and YY on the basis of capacity used. The fixed and variable costs allocated to Department XX are:

	Fixed	Variable
A.	$75,000	$112,500
B.	$75,000	$90,000
C.	$60,000	$112,500
D.	$60,000	$90,000
E.	None of these choices	

12. A joint cost allocation method that could potentially assign the same amount of cost per unit to two joint products that sell for $10 and $40, respectively, is the
   A. sales-value-at-split-off method.
   B. direct allocation method.
   C. net realizable value method.
   D. physical unit method.

13. Cumadin Corporation, which manufactures Products W, X, Y, and Z through a joint process costing $18,000, has the following data for the year:

Product	Units Produced	Sales Value at Split-Off
W	10,000	$5,000
X	6,000	2,500
Y	16,000	3,000
Z	8,000	4,500

What is the amount of joint costs assigned to Product X using the sales-value-at-split-off method?
   A. $18,000 D. $2,700
   B. $3,000 E. None of these choices
   C. $10,000

14. Examples of support departments include all of the following EXCEPT
   A. maintenance.
   B. personnel.
   C. machining.
   D. data processing.

15. Howard Company has two support departments (S1 and S2) and two producing departments (P1 and P2). Department S1 costs are allocated on the basis of number of employees, and Department S2 costs are allocated on the basis of space occupied expressed in square feet.

Data on direct department costs, number of employees, and space occupied are as follows:

	S1	S2	P1	P2
Direct department costs	$7,500	$11,000	$27,500	$30,000
Number of employees	10	5	20	25
Space occupied (sq. ft.)	1,000	500	1,500	2,500

If Howard used the reciprocal method, the algebraic equation expressing the total costs allocated from S1 is
   A. S1 = $7,500 + 0.10S2.
   B. S1 = $7,500 + 0.20S2.
   C. S1 = $10,000 + 0.20S2.
   D. S1 = $10,000 + 0.10S2.
   E. None of these choices

16. Products with substantial value that are produced simultaneously by the same process up to a split-off point are called
   A. joint products.
   B. minor products.
   C. by-products.
   D. both joint products and minor products.

17. Ruling Company assigns plant administration costs to the production departments based on the number of employees. Which of the following would NOT be a good combination of common costs with an activity driver?
   A. Personnel Department costs based on number of employees
   B. purchasing department costs based on machine hours
   C. cafeteria costs based on meals served
   D. warehouse costs based on the value of materials stored

18. Support departments
   A. are responsible for manufacturing the products sold to customers.
   B. work directly on the products of the firm.
   C. provide services directly to customers.
   D. provide essential services to the producing departments.

19. Fixed overhead volume variance is the difference between
   A. actual fixed overhead and standard direct labor hours that should have been used.
   B. budgeted fixed overhead and actual direct labor hours used.
   C. budgeted fixed overhead and applied fixed overhead.
   D. the actual fixed overhead and the budgeted fixed overhead.

20. Price/rate variances focus on the differences between actual and
   A. standard inputs multiplied by actual prices.
   B. standard unit prices of an input multiplied by the actual quantity of inputs.
   C. standard inputs multiplied by standard prices.
   D. standard unit prices of an input multiplied by the budgeted quantity of inputs.

21. Which of the following factors would cause an unfavorable labor rate variance?
   A. using higher-quality materials
   B. using low-efficiency workers
   C. using more unskilled workers
   D. using more highly skilled workers

22. Which of the following is the result of actual production being less than expected production?
   A. There is an unfavorable spending variance.
   B. There is a favorable spending variance.
   C. There is an unfavorable volume variance.
   D. There is a favorable volume variance.

23. Which of the following people is most likely responsible for an unfavorable variable overhead efficiency variance?
   A. production supervisor
   B. accountant
   C. personnel director
   D. supplier

24. Biscuit Company has developed the following standards for one of its products. Direct labor hours is the driver used to assign overhead costs to products.

Direct materials:	10 pounds × $3 per pound
Direct labor:	2.5 hours × $8 per hour
Variable manufacturing overhead:	2.5 hours × $2 per hour
The following activity occurred during the month of June:	
Materials purchased:	125,000 pounds at $2.80 per pound
Materials used:	110,000 pounds
Units produced:	10,000 units
Direct labor:	24,000 hours at $7.50 per hour
Actual variable manufacturing overhead:	$51,000

The company records materials price variances at the time of purchase. The direct labor rate variance is
   A. $12,000 favorable.
   B. $8,000 favorable.
   C. $12,000 unfavorable.
   D. $8,000 unfavorable.

25. Using the information above, the company records materials price variances at the time of purchase. The direct labor efficiency variance is
   A. $8,000 unfavorable.
   B. $8,000 favorable.
   C. $20,000 unfavorable.
   D. $20,000 favorable.

26. Using the information above, the company records materials price variances at the time of purchase. The variable manufacturing overhead efficiency variance is
   A. $1,000 favorable.
   B. $1,000 unfavorable.
   C. $2,000 favorable.
   D. $3,000 unfavorable.

27. Brooks Company uses a standard costing system. The following information pertains to direct materials for the month of June:

Standard price per lb.	$15.00
Actual purchase price per lb.	$14.50
Quantity purchased	3,150 lbs.
Quantity used	2,980 lbs.
Standard quantity allowed for actual output	3,000 lbs.
Actual output	1,000 units

Brooks Company reports its materials price variances at the time of purchase. What is the journal entry to record materials purchases?

A.	Materials	47,250	
	Materials Price Variance		1,575
	Materials Price Variance		45,675
B	Materials	47,165	
	Materials Price Variance		1,490
	Accounts Payable		45,675
C	Materials	47,175	
	Materials Price Variance		1,500
	Accounts Payable		45,675
D	Materials	44,100	
	Materials Price Variance	1,575	
	Accounts Payable		45,675

28. The standard plus the allowable deviation is called the
   A. standard quantity.
   B. standard price.
   C. upper control limit.
   D. total budget variance.

29. Which of the following is NOT an internal failure activity?
A) Treating and disposing of toxic waste
B) Maintaining pollution equipment
C) Licensing facilities for producing contaminants
D) Cleaning up a polluted lake

30. The costs of a Consumer Complaint Department are
A) external failure costs.
B) internal failure costs.
C) appraisal costs.
D) prevention costs.

31. Labor and overhead incurred for rework of defective products found by an inspector is a[No]
A) external failure cost.
B) internal failure cost.
C) appraisal cost.
D) prevention cost.

32. Carbondioxide Chemical produces a number of chemical products, two of which are Product A1 and Product A2. The controller and environmental manager have identified the following environmental activities and costs associated with the two products:

	Product A1	Product A2
Pounds produced	200,000	500,000
Packaging materials (pounds)	80,000	50,000
Energy usage (kilowatt-hours)	20,000	10,000
Toxic releases (pounds into air)	50,000	10,000
Pollution control (machine hours)	8,000	2,000
Costs of activities:		
Using packaging materials	590,000	
Using energy	24,000	
Releasing toxins (fines)	12,000	
Operating pollution control equipment	28,000	

Using ABC costing, what is the pollution control cost per unit of Product A2 (rounded to four decimal places)?
A. $0.1120 B. $0.0280 C. $0.0112 D. $0.0448

Problem Solving. Show your solution.

33. Davidson Company uses the weighted average costing method. The following information was reported for the Assembly Process for January. Materials are added at the beginning of the process and are 100% complete.

	Units	% complete for conversions
Work in process, 1/1	60,000	15%
Started	105,000	
Work in process, 1/31	40,000	20%
Costs:	Materials	Conversion
Beginning work in process	$ 16,500	$ 33,250
Current costs	843,500	332,500

What are the equivalent units for materials?

34. Using the above information, what are the equivalent units for conversion?

35. Using the above information, what is the cost per unit for materials?

36. Using the above information, what is the cost per unit for conversion?

37. Using the above information, what is the cost assigned to the units completed and transferred to finishing?

38. Golden Leaves Company has two support departments, Maintenance Department (MD) and Personnel Department (PD), and two producing departments, P1 and P2. The Maintenance Department costs of $30,000 are allocated on the basis of standard service used. The Personnel Department costs of $4,500 are allocated on the basis of number of employees. The direct costs of Departments P1 and P2 are $9,000 and $15,000, respectively.

Data on standard service hours and number of employees are as follows:

	MD	PD	P1	P2
Standard service hours used	100	50	300	150
Number of employees	10	20	90	90
Direct labor hours	50	50	250	250

Using the sequential method, if the support department are ranked in order of their total costs from highest to lowest, the total costs allocated to P1 is

39. Using the information above, if the support department are ranked in order of their total costs from highest to lowest, the total costs allocated to P2 is

40. During September, 40,000 units were produced. The standard quantity of materials allowed per unit was 5 pounds at a standard cost of $2.50 per pound. If there was a favorable usage variance of $25,000 for September, the actual quantity of materials used must have been

41. The following information is available for Jenkins Manufacturing Company for the month of June when the company produced 2,100 units:

Standard:
Material: 2 pounds per unit @ $5.80 per pound
Labor: 3 direct labor hours per unit @ $10.00 per hour

Actual:
Material: 4,250 pounds purchased and used @ $5.65 per pound
Labor: 6,300 direct labor hours at $9.75 per hour

Refer to Jenkins Manufacturing Company. What is the material price variance?

42. Refer to Jenkins Manufacturing Company. What is the material quantity variance?

--The End--

"Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence."
– Helen Keller

For I know the plans I have for you," declares the Lord, "plans to prosper you and not to harm you, plans to give you hope and a future.
– Jeremiah 29: 11

Financial Management Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

FINANCIAL MANAGEMENT

MIDTERM EXAMINATION
2nd Semester, 2025-2026

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
An Overview of Financial Management	3	11.67	7		1,2,4,6,7		3,5			7
Financial Markets and Institutions	3	13.33	8	12	8,9,10,11,13		36,37			8
Financial Statements, Cash Flows and Taxes	6	21.67	13		14,15,16,17		18,38,39,40,41,42 ,43,44,45			13
Analysis of Financial Statements	6	26.67	16		19,21,22,23,25, 27,29,31		20,24,26,28, 30,46,47,48,			16
Financial Planning and Forecasting	6	26.67	16	34,35	32,33		49, 50, 51, 52, 53, 54,55,56,57,58,59 ,60			16
Total	**24**	**100%**	**60**	**3**	**24**		**33**			60

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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USM-EDU-F25-Rev.1.2021.06.10

University of Southern Mindanao
College of Business, Development Economics, and Management
Department of Accountancy

ABC 19: Financial Management
MIDTERM EXAMINATION
2nd Semester, SY 2025-2026

Instructions: *1. Shade the letter of your choice from your answer sheet. Use a pen for shading (either blue or black ink pen).*
2. If you wish to change your answer, mark your previously shaded letter with X then shade a new one.
3. You may use this questionnaire as your scratch paper.
4. Sharing calculators is STRICTLY PROHIBITED.
5. Anyone caught cheating will be barred from continuing to take the exam and shall be referred for disciplinary actions.

1. Which of the following statements is CORRECT?
   a. Managers always attempt to maximize the long-run value of their firms' stocks, or the stocks' intrinsic values. This is exactly what stockholders desire. Thus, conflicts between stockholders and managers are not possible.
   b. The term "marginal investor" means an investor who is active in the market and would tend to buy a stock if its price fell and sell it if it rose, barring any new information coming out about the stock. It is the "marginal investor" who determines the actual stock price.
   c. If a stock's market price is above its intrinsic value, then the stock can be thought of as being undervalued, and it would be a good buy.
   d. If a stock's intrinsic value is greater than its market price, then the stock is overvalued and should be sold.

2. Which of the following statements is CORRECT pertaining to maximizing shareholders' value?
   a. If management operates in a manner designed to maximize the firm's expected profits for the current year, this will also maximize the stockholders' wealth as of the current year.
   b. In order to maximize its shareholders' value, a firm's management must attempt to maximize the expected EPS.
   c. In order to maximize its shareholders' value, a firm's management must attempt to maximize the stock price on a specific target date.
   d. In order to maximize its shareholders' value, a firm's management must attempt to maximize the stock price in the long run, or the stock's "intrinsic value."

3. Which of the following actions would be most likely to reduce potential conflicts of interest between stockholders and managers?
   a. Pay managers large cash salaries and give them no stock options.
   b. Change the corporation's formal documents to make it easier for outside investors to acquire a controlling interest in the firm through a hostile takeover.
   c. Eliminate a requirement that members of the board of directors must hold a high percentage of their personal wealth in the firm's stock.
   d. For a firm that compensates managers with stock options, reduce the time before options are vested, i.e., the time before options can be exercised and the shares that are received can be sold.

4. Which of the following statements is INCORRECT?
   a. A hostile takeover is said to occur when another corporation or group of investors gains voting control over a firm and replaces the old managers. If the old managers were managing the firm inefficiently, then hostile takeovers can improve the economy. However, hostile takeovers are controversial, and legislative actions have been taken to make them more difficult to undertake.
   b. If someone deliberately understates costs and thereby increases profits, this can cause the stock price to rise above its intrinsic value. The stock price will probably fall in the future. Also, those who participated in the fraud can be prosecuted, and the firm itself can be penalized.
   c. If a lower-level person in a firm does something illegal, like "cooking the books," to understate costs and thereby increase profits above the correct profits because he or she was told to do so by a superior, the lower-level person cannot be prosecuted but the superior can be prosecuted.
   d. If a firm's board of directors wants to maximize value for its stockholders in general (as opposed to some specific stockholders), it should design an executive compensation system whose focus is on the firm's long-term value.

5. Which of the following actions would be most likely to reduce potential conflicts between stockholders and bondholders?
   a. Including restrictive covenants in the company's bond indenture (which is the contract between the company and its bondholders).
   b. Compensating managers with more stock options and less cash income.
   c. The passage of laws that make it harder for hostile takeovers to succeed.
   d. The firm begins to use only long-term debt, e.g., debt that matures in 30 years or more, rather than debt that matures in less than one year.

6. Which of the following statements is CORRECT?
   a. One disadvantage of organizing a business as a corporation rather than a partnership is that the equity investors in a corporation are exposed to unlimited liability.
   b. Using restrictive covenants in debt agreements is an effective way to reduce conflicts between stockholders and managers.
   c. Managers generally welcome hostile takeovers since the "raider" generally offers a price for the stock that is higher than the price before the takeover action started.
   d. The managers of established, stable companies sometimes attempt to get their state legislatures to impose rules that make it more difficult for raiders to succeed with hostile takeovers.

7. Which of the following statements is CORRECT?
   a. Because bankruptcy requires that corporate bondholders be paid in full before stockholders receive anything, bondholders generally prefer to see corporate managers invest in high risk/high return projects rather than low risk/low return projects.
   b. Since bondholders receive fixed payments, they do not share in the gains if risky projects turn out to be highly successful. However, they do share in the losses if risky projects fail and drive the firm into bankruptcy. Therefore, bondholders generally prefer to see corporate managers invest in low risk/low return projects rather than high risk/high return projects.
   c. One advantage of operating a business as a corporation is that stockholders can deduct their pro rata share of the taxes the firm pays, thereby eliminating the double taxation investors would face in a partnership.
   d. Potential conflicts between stockholders and bondholders are increased if a firm's bonds are convertible into its common stock.

8. You recently sold 100 shares of Microsoft stock to your brother at a family reunion. At the reunion your brother gave you a check for the stock and you gave your brother the stock certificates. Which of the following best describes this transaction?
   a. This is an example of a direct transfer of capital.
   b. This is an example of a primary market transaction.
   c. This is an example of a money market transaction.
   d. This is an example of a derivative market transaction.

9. Which of the following is a primary market transaction?
   a. You sell 200 shares of IBM stock on the NYSE through your broker.
   b. You buy 200 shares of IBM stock from your brother. The trade is not made through a broker; you just give him cash and he gives you the stock.
   c. IBM issues 2,000,000 shares of new stock and sells them to the public through an investment banker.
   d. One financial institution buys 200,000 shares of IBM stock from another institution. An investment banker arranges the transaction.

10. Which of the following statements is FALSE?
    a. When a corporation's shares are owned by a few individuals, we say that the firm is "closely, or privately, held."
    b. "Going public" establishes a firm's true intrinsic value and ensures that a liquid market will always exist for the firm's shares.
    c. When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public," or an IPO," and the market for such stock is called the new issue or IPO market.
    d. It is possible for a firm to go public and yet not raise any additional new capital for the firm itself.

11. Which of the following statements is CORRECT?
    a. Capital market transactions involve only preferred stock or common stock.
    b. If General Electric were to issue new stock this year, this would be considered a secondary market transaction since the company already has stock outstanding.
    c. Both NASDAQ dealers and "specialists" on the NYSE hold inventories of stocks.
    d. Money market transactions do not involve securities denominated in currencies other than the U.S. dollar.

12. Money markets are markets for
    a. Foreign currencies.
    b. Common stocks.
    c. Long-term bonds.
    d. Short-term debt securities such as Treasury bills and commercial paper.

13. Which of the following statements is CORRECT?
    a. While the distinctions are becoming blurred, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.
    b. The NYSE operates as an auction market, whereas NASDAQ is an example of a dealer market.
    c. Money market mutual funds usually invest their money in a well-diversified portfolio of liquid common stocks.
    d. Money markets are markets for long-term debt and common stocks.

14. For managerial purposes, i.e., making decisions regarding the firm's operations, the standard financial statements as prepared by accountants under generally accepted accounting principles (GAAP) are often modified and used to create alternative data and metrics that provide a somewhat different picture of a firm's operations. Related to these modifications, which of the following statements is CORRECT?
    a. The standard statements focus on accounting income for the entire corporation, not cash flows, and the two can be quite different during any given accounting period. However, the firm's value is based on its future cash flows. After all, future cash flows tell us how much the firm can distribute to its investors.
    b. The standard statements provide useful information on the firm's individual operating units, but management needs more information on the firm's overall operations than the standard statements provide.
    c. The standard statements focus on cash flows, but managers should be less concerned with cash flows than with accounting income as defined by GAAP.
    d. The best feature of standard statements is that, if they are prepared under GAAP, the data are always consistent from firm to firm. Thus, under GAAP, there is no room for accountants to "adjust" the results to make earnings look better.

15. Which of the following statements is CORRECT?
    a. Assume that two firms are both following generally accepted accounting principles. Both firms commenced operations two years ago with $1 million of identical fixed assets, and neither firm either sold any of those assets or purchased any new fixed assets. The two firms would be required to report the same amount of net fixed assets on their balance sheets as those statements are presented to investors.
    b. Assets other than cash are expected to produce cash over time, and the amount of cash they eventually produce must be the same as the

amounts at which the assets are carried on the books.

c. The primary reason the annual report is important in finance is that it is used by investors when they form expectations about the firm's future earnings and dividends, and the riskiness of those cash flows.

d. EPS stands for earnings per share, while DPS stands for dividends per share. We would normally expect to see DPS exceed EPS.

16. Which of the following statements is TRUE?
a. An increase in accounts receivable represents an increase in net cash provided by operating activities because receivables will produce cash when they are collected.
b. Its retained earnings is the actual cash that the firm has generated through operations less the cash that has been paid out to stockholders as dividends. If the firm has sufficient retained earnings, it can purchase assets and pay for them with cash from retained earnings.
c. If the tax laws were changed so that $0.50 out of every $1.00 of interest paid by a corporation was allowed as a tax-deductible expense, this would probably encourage companies to use more debt financing than they presently do, other things held constant.
d. Interest paid by a corporation is a tax deduction for the paying corporation, but dividends paid are not deductible. This treatment, other things held constant, tends to encourage the use of debt financing by corporations.

17. Which of the following statements is CORRECT?
a. The current cash flow from existing assets is highly relevant to investors. However, since the value of the firm depends primarily upon its growth opportunities, accounting net income projections from those opportunities are the only relevant future flows with which investors are concerned.
b. Two metrics that are used to measure a company's financial performance are net income and free cash flow. Accountants tend to emphasize net income as calculated in accordance with generally accepted accounting principles. Finance people generally put at least as much weight on free cash flows as they do on net income.
c. Interest paid by a corporation is a tax deduction for the paying corporation, but dividends paid are not deductible. This treatment, other things held constant, tends to discourage the use of debt financing by corporations.
d. If Congress changed depreciation allowances so that companies had to report higher depreciation levels for tax purposes in 2016, this would lower their free cash flows for 2014.

18. Mayfair Company plans to issue $400 million of new common stock and use the proceeds to pay off some of its outstanding bonds that carry a 6% interest rate. Assume that the company, which does not pay any dividends, takes this action, and that total assets, operating income (EBIT), and its tax rate all remain constant. Which of the following would occur?
a. The company's taxable income would fall.
b. The company's interest expense would remain constant.
c. The company's net income would increase.
d. The company would have to pay less taxes.

19. Which of the following statements is TRUE?
a. High current and quick ratios always indicate that the firm is managing its liquidity position well.
b. If a firm sold some inventory for cash and left the funds in its bank account, its current ratio would probably not change much, but its quick ratio would decline.
c. If a firm sold some inventory on credit, its current ratio would probably not change much, but its quick ratio would increase.
d. If a firm sold some inventory on credit as opposed to cash, there is no reason to think that either its current or quick ratio would change.

20. If the CEO of a large, diversified, firm were filling out a fitness report on a division manager (i.e., "grading" the manager), which of the following situations would be likely to cause the manager to receive a better grade? In all cases, assume that other things are held constant.
a. The division's basic earning power ratio is above the average of other firms in its industry.
b. The division's total assets turnover ratio is below the average for other firms in its industry.
c. The division's total debt to total capital ratio is above the average for other firms in the industry.
d. The division's inventory turnover is 6×, whereas the average for its competitors is 8×.

21. Which of the following statements is CORRECT?
a. A decline in a firm's inventory turnover ratio suggests that it is improving both its inventory management and its liquidity position, i.e., that it is becoming more liquid.
b. Debt management ratios show the extent to which a firm's managers are attempting to magnify returns on owners' capital through the use of financial leverage.
c. The more conservative a firm's management is, the higher its total debt to total capital ratio [measured as (Short-term debt + Long-term debt)/(Debt + Preferred stock + Common equity)] is likely to be.
d. In general, it's better to have a low inventory turnover ratio than a high one, as a low ratio indicates that the firm has an adequate stock of inventory relative to sales and thus will not lose sales as a result of running out of stock.

22. Which of the following statements is CORRECT?
a. If one firm has a higher total debt to total capital ratio than another, we can be certain that the firm with the higher total debt to total capital ratio will have the lower TIE ratio, as that ratio depends entirely on the amount of debt a firm uses.
b. A firm's use of debt will have no effect on its profit margin.
c. If two firms differ only in their use of debt—i.e., they have identical assets, identical total invested capital, sales, operating costs, interest rates on their debt, and tax rates—but one firm has a higher total debt to total capital ratio, the firm that uses more debt will have a lower profit margin on sales and a lower return on assets.
d. The total debt to total capital ratio as it is generally calculated makes an adjustment for the use of assets leased under operating leases, so the debt ratios of firms that lease different percentages of their assets are still comparable.

23. Which of the following statements is CORRECT?
a. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10%, and its debt increases from 40% of total assets to 60%. The firm finances using only debt and common equity and total assets equal total invested capital. Under these conditions, the ROE will increase.
b. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10% and its debt increases from 40% of total assets to 60%. The firm finances using only debt and common equity and total assets equal total invested capital. Without additional information, we cannot tell what will happen to the ROE.
c. The DuPont equation provides information about how operations affect the ROE, but the equation does not include the effects of debt on the ROE.
d. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10%, and its debt increases from 40% of total assets to 60%. The firm finances using only debt and common equity and total assets equal total invested capital. Under these conditions, the ROE will decrease.

24. You observe that a firm's ROE is above the industry average, but both its profit margin and equity multiplier are below the industry average. Which of the following statements is CORRECT?
a. Its total assets turnover must be above the industry average.
b. Its return on assets must equal the industry average.
c. Its TIE ratio must be below the industry average.
d. Its total assets turnover must be below the industry average.

25. Which of the following statements is CORRECT?
a. One problem with ratio analysis is that relationships can sometimes be manipulated. For example, if our current ratio is greater than 1.5, then borrowing on a short-term basis and using the funds to build up our cash account would cause the current ratio to INCREASE.
b. A firm's ROE is equal to 9% and its ROA is equal to 6%. The firm finances only with short-term debt, long-term debt, and common equity, so assets equal total invested capital. The firm's total debt to total capital ratio must be 50%.
c. Firms A and B have the same current ratio, 0.75, the same amount of sales, and the same amount of current liabilities. However, Firm A has a higher inventory turnover ratio than B. Therefore, we can conclude that A's quick ratio must be smaller than B's.
d. Suppose Firms A and B have the same amount of assets, total assets are equal to total invested capital, pay the same interest rate on their debt, have the same basic earning power (BEP), finance with only debt and common equity, and have the same tax rate. However, Firm A has a higher debt to capital ratio. If BEP is greater than the interest rate on debt, Firm A will have a higher ROE as a result of its higher debt ratio.

26. Companies HD and LD are both profitable, and they have the same total assets (TA), total invested capital, sales (S), return on assets (ROA), and profit margin (PM). Both firms finance using only debt and common equity. However, Company HD has the higher total debt to total capital ratio. Which of the following statements is CORRECT?
a. Company HD has a lower total asset turnover than Company LD.
b. Company HD has a lower equity multiplier than Company LD.
c. Company HD has a higher fixed assets turnover than Company LD.
d. Company HD has a higher ROE than Company LD.

27. Which of the following statements is CORRECT?
a. If two firms have the same ROA, the firm with the most debt can be expected to have the lower ROE.
b. An increase in the DSO, other things held constant, could be expected to increase the total assets turnover ratio.
c. An increase in the DSO, other things held constant, could be expected to increase the ROE.
d. An increase in a firm's total debt to total capital ratio, with no changes in its sales or operating costs, could be expected to lower its profit margin.

28. Walter Industries' current ratio is 0.5. Considered alone, which of the following actions would increase the company's current ratio?
a. Borrow using short-term notes payable and use the cash to increase inventories.
b. Use cash to reduce accruals.
c. Use cash to reduce accounts payable.
d. Use cash to reduce short-term notes payable.

29. Which of the following statements is CORRECT?
a. The inventory turnover and current ratio are related. The combination of a high current ratio and a low inventory turnover ratio, relative to industry norms, suggests that the firm has an above-average inventory level and/or that part of the inventory is obsolete or damaged.
b. It is appropriate to use the fixed assets turnover ratio to appraise firms' effectiveness in managing their fixed assets if and only if all the firms being compared have the same proportion of fixed assets to total assets.
c. Other things held constant, a decline in sales accompanied by an increase in financial leverage must result in a lower profit margin.
d. Suppose you are analyzing two firms in the same industry. Firm A has a profit margin of 10% versus a profit margin of 8% for Firm B. Firm A's total debt to total capital ratio [measured as (Short-term debt + Long-term debt)/(Debt + Preferred stock + Common equity)] is 70% versus one of 20% for Firm B. Based only on these two facts, you cannot reach a conclusion as to which firm is better managed, because the difference in debt, not better management, could be the cause of Firm A's higher profit margin.

30. Safeco's current assets total to $20 million versus $10 million of current liabilities, while Risco's current assets are $10 million versus $20 million of current liabilities. Both firms would like to "window dress" their end-of-year financial statements, and to do so they tentatively plan to borrow $10 million on a short-term basis and to then hold the borrowed funds in their cash accounts. Which of the statements below best describes the results of these transactions?
a. The transactions would improve Safeco's financial strength as measured by its current ratio but lower Risco's current ratio.
b. The transactions would lower Safeco's financial strength as measured by its current ratio but raise Risco's current ratio.
c. The transactions would lower both firms' financial strength as measured by their current ratios.
d. The transactions would improve both firms' financial strength as measured by their current ratios.

31. Which of the following statements is CORRECT?
a. Even though Firm A's current ratio exceeds that of Firm B, Firm B's quick ratio might exceed that of A. However, if A's quick ratio exceeds B's, then we can be certain that A's current ratio is also larger than B's.
b. Suppose a firm wants to maintain a specific TIE ratio. It knows the amount of its debt, the interest rate on that debt, the applicable tax rate, and its operating costs. With this information, the firm can calculate the amount of sales required to achieve its target TIE ratio.
c. Since the ROA measures the firm's effective utilization of assets without considering how these assets are financed, two firms with the same EBIT must have the same ROA.
d. Suppose all firms follow similar financing policies, face similar risks, have equal access to capital, and operate in competitive product and capital markets. However, firms face different operating conditions because, for example, the grocery store industry is different from the airline industry. Under these conditions, firms with high profit margins will tend to have high asset turnover ratios, and firms with low profit margins will tend to have low turnover ratios.

32. Which of the following statements is CORRECT?
a. Errors in the sales forecast can be offset by similar errors in costs and income forecasts. Thus, as long as the errors are not large, sales forecast accuracy is not critical to the firm.
b. The term "spontaneously generated funds" generally refers to increases in the cash account that result from growth in sales, assuming the firm is operating with a positive profit margin.
c. If a firm wants to maintain its ratios at their existing levels, then if it has a positive sales growth rate of any amount, it will require some amount of external funding.
d. A rapid build-up of inventories normally requires additional financing, unless the increase is matched by an equally large decrease in some other asset.

33. Which of the following statements is FALSE?
a. If a firm with a positive net worth is operating its fixed assets at full capacity, if its dividend payout ratio is 100%, and if it wants to hold all financial ratios constant, then for any positive growth rate in sales, it will require external financing.
b. If a firm's capital intensity ratio (A_0^*/S_0) decreases as sales increase, use of the AFN formula is likely to understate the amount of additional funds required, other things held constant.
c. Two firms with identical capital intensity ratios are generating the same amount of sales. However, Firm A is operating at full capacity, while Firm B is operating below capacity. If the two firms expect the same growth in sales during the next period, then Firm A is likely to need more additional funds than Firm B, other things held constant.
d. When we use the AFN equation to forecast the additional funds needed (AFN), we are implicitly assuming that all financial ratios are constant. If financial ratios are not constant, regression techniques can be used to improve the financial forecast.

34. Which of the following is NOT a key element in strategic planning?
a. The mission statement.
b. The statement of the corporation's scope and objectives.
c. The projected financial statements.
d. The operating plan.

35. Which of the following is NOT one of the steps taken in the financial planning process?
a. Assumptions are made about future levels of sales, costs, and interest rates for use in the forecast.
b. Projected ratios are calculated and analyzed.
c. Develop a set of projected financial statements.
d. Consult with key competitors about the optimal set of prices to charge, i.e., the prices that will maximize profits for our firm and its competitors.

36. Charleston Corporation (CC) now operates as a "regular" corporation, but it is considering a switch to S Corporation status. CC is owned by 100 stockholders who each hold 1% of the stock, and each faces a personal tax rate of 35%. The firm earns $2,000,000 per year before taxes, and since it has no need for retained earnings, it pays out all of its earnings as dividends. Assume that the corporate tax rate is 34% and the personal tax rate is 35%. How much more (or less) spendable income would each stockholder have if the firm elected S Corporation status?
a. $ 2,565
b. $ 4,420
c. $ 8,580
d. $11,150

37. New Business is just being formed by 10 investors, each of whom will own 10% of the business. The firm is expected to earn $1,000,000 before taxes each year. The corporate tax rate is 34% and the personal tax rate for the firm's investors is 35%. The firm does not need to retain any earnings, so all of its after-tax income will be paid out as dividends to its investors. The investors will have to pay personal taxes on whatever they receive. How much additional spendable income will each investor have if the business is organized as a partnership rather than as a corporation?
a. $20,800
b. $21,225
c. $21,658
d. $22,100

38. Brown Fashions Inc.'s December 31, 2014, balance sheet showed total common equity of $4,050,000 and 200,000 shares of stock outstanding. During 2014, the firm had $450,000 of net income, and it paid out $100,000 as dividends. What was the book value per share at 12/31/14, assuming no common stock was either issued or retired during 2014?
a. $20.90
b. $22.00
c. $23.10
d. $24.26

39. Shrives Publishing recently reported $10,750 of sales, $5,500 of operating costs other than depreciation, and $1,250 of depreciation. The company had $3,500 of bonds that carry a 6.25% interest rate, and its federal-plus-state income tax rate was 35%. During the year, the firm had expenditures on fixed assets and net operating working capital that totaled $1,550. These expenditures were necessary for it to sustain operations and generate future sales and cash flows. What was its free cash flow?
a. $1,972
b. $2,076
c. $2,185
d. $2,300

40. Casey Motors recently reported the following information:
- Net income = $600,000.
- Tax rate = 40%.
- Interest expense = $200,000.
- Total invested operating capital employed = $9 million.
- After-tax cost of capital = 10%.

What is the company's EVA?
a. −$171,000
b. −$180,000
c. −$189,000
d. −$198,450

41. Vasudevan Inc. recently reported operating income of $2.75 million, depreciation of $1.20 million, and had a tax rate of 40%. The firm's expenditures on fixed assets and net operating working capital totaled $0.6 million. How much was its free cash flow, in millions?
a. $2.03
b. $2.14
c. $2.25
d. $2.36

42. A corporate bond currently yields 8.5%. Municipal bonds with the same risk, maturity, and liquidity currently yield 5.5%. At what tax rate would investors be indifferent between the two bonds?
a. 35.29%
b. 37.06%
c. 38.91%
d. 40.86%

43. Salinger Software was founded in 2011. The company lost money each of its first three years, but was able to turn a profit in 2014. Salinger's operating income (EBIT) for its first four years of operations is reported below.

Year	EBIT
2011	−$ 50,000,000
2012	−$150,000,000
2013	−$100,000,000
2014	$700,000,000

The company has no debt, so operating income equals earnings before taxes. The corporate tax rate has remained constant at 35%. Assume that the company took full advantage of the carry-back, carry-forward provisions in the Tax Code, and assume that the current provisions were applicable in 2011. How much tax did the company pay in 2014?
a. $120,032,500
b. $126,350,000
c. $133,000,000
d. $140,000,000

44. Allen Corporation can (1) build a new plant that should generate a before-tax return of 11%, or (2) invest the same funds in the preferred stock of Florida Power & Light (FPL), which should provide Allen with a before-tax return of 9%, all in the form of dividends. Assume that Allen's marginal tax rate is 25%, and that 70% of dividends received are excluded from taxable income. If the plant project is divisible into small increments, and if the two investments are equally risky, what combination of these two possibilities will maximize Allen's effective return on the money invested?
a. All in the plant project.
b. All in FPL preferred stock.
c. 60% in the project; 40% in FPL.
d. 60% in FPL; 40% in the project.

45. Arvo Corporation is trying to choose between three alternative investments. The three securities that the company is considering are as follows:
- Tax-free municipal bonds with a return of 8.8%.
- Wooli Corporation bonds with a return of 11.75%.
- CFI Corp. preferred stock with a return of 9.8%.

The company's tax rate is 25%. What is the after-tax return on the best investment alternative?
a. 7.772%
b. 8.181%
c. 8.612%
d. 9.065%

46. Ajax Corp's sales last year were $435,000, its operating costs were $362,500, and its interest charges were $12,500. What was the firm's times-interest-earned (TIE) ratio?
a. 4.97
b. 5.23
c. 5.51
d. 5.80

47. Herring Corporation has operating income of $225,000 and a 40% tax rate. The firm has short-term debt of $120,000, long-term debt of $330,000, and common equity of $450,000. What is its return on invested capital?
a. 13.75%
b. 14.35%
c. 15.00%
d. 16.25%

48. Last year Ann Arbor Corp had $135,000 of assets (which equals total invested capital), $805,000 of sales, $20,000 of net income, and a debt-to-total-capital ratio

of 37.5%. The new CFO believes a new computer program will enable it to reduce costs and thus raise net income to $33,000. The firm finances using only debt and common equity. Assets, total invested capital, sales, and the debt to capital ratio would not be affected. By how much would the cost reduction improve the ROE?

a. 12.11%
b. 12.75%
c. 13.42%
d. 14.09%

49. Last year Harrington Inc. had sales of $325,000 and a net income of $19,000, and its year-end assets were $250,000. The firm's total-debt-to-total-capital ratio was 45.0%. The firm finances using only debt and common equity and its total assets equal total invested capital. Based on the DuPont equation, what was the ROE?

a. 13.82%
b. 14.51%
c. 15.23%
d. 16.00%

50. Last year Rennie Industries had sales of $305,000, assets of $175,000 (which equals total invested capital), a profit margin of 5.3%, and an equity multiplier of 1.2. The CFO believes that the company could reduce its assets by $51,000 without affecting either sales or costs. The firm finances using only debt and common equity. Had it reduced its assets by this amount, and had the debt/total invested capital ratio, sales, and costs remained constant, how much would the ROE have changed?

a. 4.10%
b. 4.56%
c. 5.01%
d. 5.52%

51. Last year Blease Inc had a total assets turnover of 1.33 and an equity multiplier of 1.75. Its sales were $295,000 and its net income was $10,600. The firm finances using only debt and common equity and its total assets equal total invested capital. The CFO believes that the company could have operated more efficiently, lowered its costs, and increased its net income by $10,250 without changing its sales, assets, or capital structure. Had it cut costs and increased its net income by this amount, how much would the ROE have changed?

a. 7.28%
b. 8.09%
c. 8.90%
d. 9.79%

52. Jordan Inc has the following balance sheet and income statement data:

Cash	$14,000	Accounts payable	$42,000
Receivables	70,000	Other current liab.	28,000
Inventories	280,000	Total CL	$ 70,000
Total CA	$364,000	Long-term debt	140,000
Net fixed assets	126,000	Common equity	280,000
Total assets	$490,000	Total liab. and equity	$490,000
Sales	$280,000		
Net income	$21,000		

The new CFO thinks that inventories are excessive and could be lowered sufficiently to cause the current ratio to equal the industry average, 2.75, without affecting either sales or net income. Assuming that inventories are sold off and not replaced to get the current ratio to the target level, and that the funds generated are used to buy back common stock at book value, by how much would the ROE change?

a. 11.26%
b. 11.85%
c. 12.45%
d. 13.07%

53. Last year Jandik Corp had $295,000 of assets (which is equal to its total invested capital), $18,750 of net income, and a debt-to-total-capital ratio of 37%. Now suppose the new CFO convinces the president to increase the debt-to-total-capital ratio to 48%. Sales, total assets, and total invested capital will not be affected, but interest expenses would increase. However, the CFO believes that better cost controls would be sufficient to offset the higher interest expense and thus keep net income unchanged. By how much would the change in the capital structure improve the ROE?

a. 2.13%
b. 2.35%
c. 2.58%
d. 2.84%

54. Last year Hamdi Corp. had sales of $500,000, operating costs of $450,000, and year-end assets (which is equal to its total invested capital) of $395,000. The debt-to-total-capital ratio was 17%, the interest rate on the debt was 7.5%, and the firm's tax rate was 35%. The new CFO wants to see how the ROE would have been affected if the firm had used a 50% debt-to-total-capital ratio. Assume that sales, operating costs, total assets, total invested capital, and the tax rate would not be affected, but the interest rate would rise to 8.0%. By how much would the ROE change in response to the change in the capital structure?

a. 1.90%
b. 2.11%
c. 2.34%
d. 2.58%

55. Quigley Inc. is considering two financial plans for the coming year. Management expects sales to be $300,000, operating costs to be $265,000, assets (which is equal to its total invested capital) to be $200,000, and its tax rate to be 35%. Under Plan A it would finance the firm using 25% debt and 75% common equity. The interest rate on the debt would be 8.8%, but under a contract with existing bondholders the TIE ratio would have to be maintained at or above 4.0. Under Plan B, the maximum debt that met the TIE constraint would be employed. Assuming that sales, operating costs, assets, total invested capital, the interest rate, and the tax rate would all remain constant, by how much would the ROE change in response to the change in the capital structure?

a. 3.71%
b. 4.08%
c. 4.48%
d. 4.93%

56. Last year Kruse Corp had $305,000 of assets (which is equal to its total investedl capital), $405,000 of sales, $28,250 of net income, and a debt-to-total-capital ratio of 39%. The new CFO believes the firm has excessive fixed assets and inventory that could be sold, enabling it to reduce its total assets and total invested capital to $252,500. The firm finances using only debt and common equity. Sales, costs, and net income would not be affected, and the firm would maintain the same capital structure (but with less total debt). By how much would the reduction in assets improve the ROE?

a. 3.00%
b. 3.16%
c. 3.31%
d. 3.48%

57. A new firm is developing its businessplan. It will require $615,000 of assets (which equals total invested capital), and it projects $450,000 of sales and $355,000 of operating costs for the first year. Management is reasonably sure of these numbers because of contracts with its customers and suppliers. It can borrow at a rate of 7.5%, but the bank requires it to have a TIE of at least 4.0, and if the TIE falls below this level the bank will call in the loan and the firm will go bankrupt. The firm will use only debt and common equity for financing. What is the maximum debt to capital ratio (measured as debt/total invested capital) the firm can use?

a. 44.15%
b. 46.47%
c. 48.92%
d. 51.49%

58. Summer Corporation is planning its operations for next year. They need to forecast the firm's additional funds needed (AFN). Data for use in the forecast are shown below. Based on the AFN equation, what is the AFN for the coming year? Dollars are in millions.

Last year's sales = S_0	$350
Sales growth rate = g	30%
Last year's total assets = A_0^*	$500
Last year's profit margin = PM	5%
Last year's accounts payable	$40
Last year's notes payable	$50
Last year's accruals	$30
Target payout ratio	60%

a. $102.8
b. $108.2
c. $113.9
d. $119.9
e. $125.9

59. Last year Sunshine Industries had $450 million of sales and $225 million of fixed assets. However, its fixed assets were used at only 65% of capacity. If the company had been able to sell off enough of its fixed assets at book value so that it was operating at full capacity, with sales held constant at $450 million, how much cash (in millions) would it have generated?

a. $74.81
b. $78.75
c. $82.69
d. $86.82

60. Mirabell Corp. is planning its operations for the coming year, and the CEO wants you to forecast the firm's additional funds needed (AFN). Data for use in the forecast are shown below. However, the CEO is concerned about the impact of a change in the payout ratio from the 10% that was used in the past to 50%, which the firm's investment bankers have recommended. Based on the AFN equation, by how much would the AFN for the coming year change if Mirabell increased the payout from 10% to the new and higher level? All dollars are in millions.

Last year's sales = S_0	$300.0
Sales growth rate = g	40%
Last year's total assets = A_0^*	$500
Last year's profit margin = PM	20.0%
Last year's accounts payable	$50.0
Last year's notes payable	$15.0
Last year's accruals	$20.0
Initial payout ratio	60%

a. $31.9
b. $33.6
c. $35.3
d. $37.0

Business Taxation Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO

Kabacan, Cotabato

Philippines

TABLE OF SPECIFICATIONS

BUSINESS TAXATION
FINAL EXAMINATION
2nd Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Nature and Concept of Business Taxes and VAT in sale of goods or Property	3	10.67	8	31, 36	1,2,	39,40	45,46			**8**
VAT on Sale of Service and Use or Lease of Property	3	12	9		9, 71	23, 35,34 73	21,24,44			**9**
VAT on importation of goods and output and input taxes	3	14.66	11	5,7	41,42,43	22,38, 62,64	67,68			**11**
VAT exempt transactions	3	14.67	11	32	3,4, 65,72, 19,20	37,66	25,26			**11**
Compliance Requirements Withholding and Remittance of VAT	3	6.66	5	6,8, 33,63			69			**5**
Rates and Bases of Percentage TAX	6	24	18	13,14	10,11,12,15,16	47,48, 49,50,51, 52, 53,61,70	27,28			**18**
Withholding of percentage tax and penalties and remedies and Ethical Considerations	3	6.67	5	29, 55,57	56	54				**5**
Local Direct Taxes	3	10.67	8	17,18, 60	30,58, 59	74,75				**8**
TOTAL	**27**	**100%**	**75**	**17**	**22**	**24**	**12**			**75**

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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UNIVERSITY OF SOURHERN MINDANAO
BUSINESS TAXATION
FINAL EXAMINATION

GENERAL INSTRUCTIONS

- **Read the Instructions Carefully:** Before starting, thoroughly read the instructions provided on the question paper.
- **Manage Your Time:** Allocate your time wisely. For lengthy examinations, divide your time according to the marks allotted to each question. Keep track of time to ensure you can complete all questions.
- Use the answer sheet provided when answering. Shade the letter of your choice, using a **black ballpen** for shading.
- No CHEATING

Part I. Read and follow instructions carefully.

- Shade **A** if the Statement is TRUE
- Shade **B** if the Statement is FALSE

1. Nonstock and nonprofit private organizations which sell exclusively to their members in the regular conduct or pursuit of commercial or economic activity are exempt from value-added tax.
2. Government entities engaged in commercial or economic activity are generally exempt from value-added tax.
3. The sale of real property not primarily held for sale in the ordinary course of business is exempt from VAT.
4. The sale of parking space or lot as an adjunct of a condominium unit in the course of trade or business at a gross selling price of P500,000 is exempt from vat as long as its price, together with the unit, does not exceed the vat threshold.
5. Prior to effectivity of RA 11976 or the EOPTA, the document basis for the recognition of value added tax for the sale of goods is sales invoice.
6. The rules pertaining to tax credit of output vat on uncollected receivables do not amend the conditioned of deductibility of bad debt expenses in the income tax returns.
7. Beginning taxable year 2022, the input vat on purchase or importation of capital goods with an aggregate value of more than P1,000,000 for one month period shall be spread over 60 months if the life of capital goods is equivalent to 5 years.
8. The 5% vat withheld by the government or any of its political subdivisions, instrumentalities or agencies, including government-owned or controlled corporations (GOCC) shall be deductible from VAT due to seller.
9. On sale of real property on installments by a real estate dealer, the seller shall be subject to VAT on the installment payment received, including interests and penalties for late payment.
10. All VAT-exempt taxpayers shall be subject to other percentage taxes.
11. A taxpayer who is subject percentage tax on his gross receipt will also be subject to income tax on his net income.
12. Under RA 11976 or the EOPTA, the gross sales of common carriers derived from their incoming and outgoing freight shall not be subject to the local taxes imposed under RA 7160, otherwise known as the Local Government Code of 1991.
13. The 3% common carrier's tax is based on the quarterly gross sales or minimum quarterly sales whichever is lower.
14. Income from non-gaming operation refers to any other income or earnings realized or derived by OGLs that are not classified as income from gaming operations.
15. The 10% tax on winnings is based on actual amount paid to the winner.
16. A radio broadcasting company whose gross annual receipts do not exceed P10,000,000 shall not be subject to value-added tax even if it decides to be subject to VAT.
17. LGUs cannot collect taxes, fees or charges on agricultural and aquatic products when sold by marginal farmers or fishermen.
18. Municipalities may impose taxes on wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature.
19. Zero rated transactions are VAT exempt transactions because it does not result to output tax.
20. A sale of goldfish by a petshop is subject to value-added tax, while a sale of fresh tilapia in the market is exempt.

Part II. MULTIPLE CHOICE. Read each item carefully and choose the letter of the correct answer. Shade the letter of your choice in the answer sheet provided.

21. Except for one transaction, the rest are exempt from value added tax. Which one is VAT taxable?
    A. Sales of chicken by a restaurant owner who did not register as a VAT person and whose gross annual sales is P1.2 million.
    B. Sales of copra by a copra dealer to a coconut oil manufacturer who did not register as a VAT person and whose gross annual sales is P5 million.
    C. Gross sale of CPA during the year amounted to P2 million; the CPA registered as a VAT person in January 2024, before practicing his profession.
    D. Sale of books by a book store during the year amounted to P10 million; it did not register as a VAT person with the BIR.
22. Which importation is subject to VAT?
    A. Importation of fuels by a person engaged in international shipping worth P20 Million if the fuel shall be used exclusively for international shipping and air transport operations.
    B. Importation of raw, unprocessed, refrigerated Kobe beef from Japan by a beef dealer for sale to hotels in Makati City with a fair market value of P10 million.
    C. Importation of wines by a wine dealer with a fair market value of P2 million for sale to hotels in Makati City.
    D. Importation of books worth P5 million and school supplies worth P1.2 million.
23. The following services shall be subject to 12% VAT:
    I. Processing, manufacturing, or repacking goods for other persons doing business outside the Philippines, which goods are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas.
    II. Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of the total annual production.

	I	II
A.	True	False
B.	False	True
C.	True	True
D.	False	False

24. Which of the following services is not subject to VAT?
    A. Gross sales or international air or shipping carriers doing business in the Philippines derived from transport of passengers and cargo from the Philippines to another country.
    B. Transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country.
    C. Services made to international common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines.
    D. Services rendered to persons engaged in international shipping or air transport operations, including leases of property for use thereof; Provided, that these services shall be exclusively for international shipping or air transport operations.
25. A lessor of real property is exempt from value added tax in one of the transactions below. Which one is not?
    A. Lessor leases commercial stalls located in the Greenhills Commercial Center to VAT-registered sellers of cellphones; lessor's gross rental during the year amounted to P12 million.
    B. Lessor leases residential apartment units to individual tenants for P14,000 per month per unit; his gross rental income during the year amounted to P3.2 million.
    C. Lessor leases commercial stalls at P14,000 per stall per month and residential units at P16,000 per unit per month; his gross rental income during the year amounted to P5 million.
    D. Lessor leases two (2) residential houses and lots at P50,000 per month per unit, but he registered as a VAT person.
26. Which statement is correct? A bar review center owned and operated by lawyers is:
    A. Exempt from VAT, regardless of its gross sales during the year because it is an educational center.
    B. Exempt from VAT, provided that its annual gross sales do not exceed P3,000,000.
    C. Subject to Vat, regardless of its gross sales during the year.
    D. Subject to VAT, if it is duly accredited by TESDA.
27. Which of the following is subject to the 3% percentage tax?
    A. Establishments whose annual gross sales exceed P3,000,000 and are VAT registered.
    B. Businesses whose annual gross sales exceed P3,000,000 and are not VAT registered.
    C. VAT registered establishments whose annual gross sales do not exceed P3,000,000
    D. Establishments whose annual gross sales do not exceed P3,000,000 and are not VAT registered.
28. Common carrier 1: Domestic sea or air carriers for passengers or cargoes.
    Common carrier 2: International sea or air carriers on carriage of cargoes.
    What is the respective business tax rate on the common carriers identified above if they travel from Philippines to foreign country?

	Common Carrier 1	Common Carrier 2
A.	0%	3%
B.	3%	3%
C.	0%	0%
D.	12%	3%

29. The actual effort exerted by the government to effect the exaction of what is due from the taxpayer is known as
    A. Assessment
    B. Levy
    C. Payment
    D. Collection
30. A transfer of real of property ownership such as sale, donation or barter is subject to transfer tax. Which of the following statements is not true about transfer tax?
    A. The tax rate for cities should not exceed ½%
    B. It is payable within 60 days from the date of the execution of the deed or from the date of the decedent's death.
    C. It is payable to the Office of the City Treasurer
    D. All transfers or real property including the disposition under Comprehensive Tax Reform Law (RA6657) are subject to transfer tax.
31. Which of the following is not an activity subject to VAT?
    A. Sale in retail of goods by a dealer
    B. Sale of Bamboo poles by a dealer
    C. Sublease of real property in the course of business
    D. Importation of ordinary feeds for poultry chicken
32. Which of the following is exempt from VAT?
    A. Common carriers transporting passengers by air within the Philippines
    B. Common carriers transporting passengers by sea within the Philippines
    C. Common carriers transporting passengers by land within the Philippines
    D. Common carriers transporting cargoes by air within the Philippines.
33. Beginning January 1, 2023, filing of VAT returns and payment of vat due is required
    A. On a monthly basis only
    B. On a quarterly basis only
    C. On a monthly and quarterly basis
    D. On a monthly, quarterly and annual basis
34. Which of the following may be subject to VAT?
    A. Hospital services
    B. TESDA-registered educational services
    C. Seminars and Training services
    D. Services under an employer-employee relationship
35. In 2024, Clifford purchased a condominium unit from his friend, Ronal (condo unit owner), for P3,000,000 and a parking space from the subdivision developer for P800,000. The correct amount of VAT is:
    A. P456,000
    B. P360,000
    C. P96,000
    D. P0
36. Who is the one statutorily liable for the payment of VAT?
    A. consumer
    B. buyer
    C. seller
    D. buyer or seller
37. Genson Distribution Inc., a vat-registered taxpayer, had the following data in a month:

Cash sales	P200,000
Open account sales	500,000
Consignment:	
0 to 30 days old (on which there were remittances from consignees of P200,000)	600,000
31 to 60 days old	700,000
61 days old and above	900,000

How much is the output tax?
    A. P348,000
    B. P216,000
    C. P264,000
    D. P108,000
38. The following are the data of Davao International for the last quarter of the taxable year.

Sales up to Dec. 15 (gross of VAT)	P3,808,000
Purchases up to Dec 15 (net of VAT)	1,500,000

Additional information:
On December 16, the Company retired from its business and the inventory valued at P1,900,000 remained unsold. There is a deferred input tax from the third quarter of P35,000. How much is the total value- added taxes payable of Davao International?
    A. P421,000
    B. P215,000
    C. P228,000
    D. P193,000

39. On January 5, 2024, Pinoy Food Corporation, vat registered, sold on account goods for P112,000 inclusive of VAT. The term was: 2/10, n/30. Payment was made on January 10, 2024. The total amount due is:
    A. P110,000
    B. P107,800
    C. P112,000
    D. P109, 760
40. A taxpayer registered under the VAT system on January 1, 2024. His records during the month show:

Value of inventory as of December 31, 2023 purchased from VAT-registered persons	P112,000
VAT paid on inventory as of December 31, 2023	12,000
Value of inventory as of December 31, 2023 purchased, from non-VAT persons	518,000
Sales (2024), net of VAT	281,000
Purchases during the month, net of VAT	70,000
Purchases during the month of VAT exempt goods	50,000

The VAT payable in January 2024 should be:
    A. P23,080
    B. P25, 320
    C. P12, 720
    D. P12,320
41. A person subject to VAT for the first time can have an input tax out of the inventory of goods, material and supplies on hand at the time he become liable. This is called:
    A. Value added tax deemed paid
    B. Transitional input tax
    C. Presumptive input tax
    D. None of the above
42. Leomar, a VAT registered person, has the following data:

Export sales, total invoice amount	P3,000,000
Domestic sales, total invoice amount	6,720,000
PURCHASES, used to manufacture Goods for export and domestic sales:	
Raw Materials, VAT inclusive	P616,000
Supplies, VAT inclusive	448,000
Equipment, VAT exclusive	300,000

The amount of input tax which can be refunded or converted into tax credit certificates at the option of Leomar should be:
    A. P120,000
    B. P118,800
    C. P39, 600
    D. P50,000
43. Based on the preceding number, if the refundable input taxes were not refunded but used as tax credit against output vat, the vat payable should be:
    A. P576,000
    B. P697,888
    C. P666,888
    D. P570,000
44. A dealer in securities has the following for the year 2023:

Sales, shares held as inventory	P5,000,000
Sales, shares held as investment	1,500,000
Cost of shares, held as inventory	2,000,000
Cost of shares, held as investment	500,000
Supplies expense, net of VAT	100,000
Rent expense, net of VAT	200,000

How much is the VAT payable?
    A. P470,000
    B. P324,000
    C. P270,000
    D. VAT exempt
45. Lola Lita, a senior citizen, bought a medicine with a selling price of P9,520 inclusive of VAT. How much is the net amount to be paid by Lola?
    A. P8,500
    B. P7,616
    C. P6,916
    D. P6,800
46. Lolo Sot, a senior citizen went to Jollibee to treat his 4 grandchildren on account of his retirement. They consumed foods and beverages with gross amount of P1,120 inclusive of VAT. How much is amount to be paid by Lolo Sot?
    A. P896
    B. P920
    C. P6,916
    D. P1,100
47. Floyd (self-employed) is a non-vat registered taxpayer who operates a convenience store. The following data were provided for 2024 taxable year:

Sale of processed food items	P1,800,000
Sale of non-food items	750,000
Purchases- processed food items	925,000
Purchases- nonfood items	360,000
Salaries of helpers	380,000

Compute the correct percentage tax due and prepare the percentage tax return.
    A. P25, 500
    B. P76, 500
    C. P216,000
    D. P306,000

48. The 3% percentage tax on international carriers is imposed upon:

	International air carrier doing business in the Philippines	International shipping doing business in the Philippines
A.	Yes	Yes
B.	No	No
C.	Yes	No
D.	No	Yes

Use the following data for the next three (3) questions:

49. A franchisee, had the following data on sales and receivables in the 2nd quarter of 2024:

Quarter ended, June 30, 2024	Sales	AR, beg.	AR, end
Covered by the franchise	P4,000,000	P600,000	P800,000
Not covered by the franchise	1,200,000		160,000

If the franchisee is generating and selling electricity, the correct amount of business tax is:

A. P200,800
B. P456,000
C. P580,800
D. P624,000

50. If the franchisee is a **gas and water** utility, the correct amount of business tax is:
A. P80,000
B. P144,000
C. P224,000
D. P238,800

51. If the franchisee is a radio television broadcasting company, the correct amount of business tax is:

A. P264,000
B. P456,000
C. P580,800
D. P624,000

Numbers 52-53 are based on the following information:

Rustico owns an eatery near a trimobile parking area. Its annual gross sales range from P2,400,000 to P2,800,000. During the quarter, the gross sales amounted to P270,500 while purchases of goods subject to VAT is P60,000 and not subject to VAT, P130,000.

52. If Rustico is not a VAT registered taxpayer, his percentage tax due for the quarter is
A. P12,000
B. P2,705
C. P 8,115
D. P2,500

53. Assuming that Rustico is a VAT-registered taxpayer and the amounts indicated are exclusive of VAT, the value added tax due is
A. P32,460
B. P8,115
C. P25,260
D. P2,500

54. Carlos operates the Peacok Videoke Bar along Avenida Avenue, Manila. His gross receipts during the quarter amounted to P926,700. The foods and drinks being served inside the bar are being delivered by Tiberio, a non-VAT taxpayer. During the quarter, Tiberio sold P320,400 worth of goods and drinks to Carlos.
The amusement tax payable is
A. P175, 806
B. P57, 672
C. P166, 806
D. P224, 478

55. Which of the following is not an extrajudicial remedy of the government against the taxpayer?
A. Distraint of personal property
B. Levy of real property'
C. Garnishment of bank accounts
D. Filing of criminal case in court

56. The property of a delinquent taxpayer shall not be placed under constructive distraint by the Commissioner of Internal Revenue if in his opinion the taxpayer is:
A. Retiring from any business subject to tax
B. Intending to leave the country or to remove his property therefrom
C. Doing all possible legal means to dispute the assessment
D. Performing an act tending to obstruct the proceedings for collecting the tax due

57. Which of the following options is FALSE? Administrative claim for refund of unutilized input tax on zero rated sales for the first quarter of 2022
A. May be filed on March 31, 2024
B. Must be filed by the statutory taxpayer
C. Must be filed not later than April 20, 2024 if the tax for the first quarter was paid on April 20, 2022.
D. Cannot be withdrawn anymore once the case is elevated to the Court of Tax Appeals.

58. Rey, a resident of Candelaria, Quezon, after retirement from employment as city accountant of Lucena City had decided to establish an accounting office in Lucena City on May 25, 2022. He should pay the professional tax in
A. Candelaria, Quezon
B. Lucena City
C. Province of Quezon
D. Anywhere in the Philippines

59. The Sanggunlang Panlalawigan upon motion of Board Member Cora Coth enacted a provincial ordinance imposing sand and gravel tax on stones, sand, gravel, earth and other quarry resources. A municipality within the province enacted similar tax ordinance. Accordingly, the quarry is located within the territorial jurisdiction of the municipality. It is therefore, their right to impose tax. Which local government unit should collect the tax?
A. Province
B. City
C. Municipality
D. Barangay

60. The collection of quarterly business tax by a city shall not be let to

A. City Treasurer's Office
B. Landbank of the Philippines
C. gcash
D. Private person

Items 61 and 62 are based on the following information:

Madulag Insurance Company had the following data on gross sales/ collections of premiums and disbursements during the quarter:

	Life Insurance	Non-life Insurance
Cash collections	P150,000	P145,700
Checks	45,000	34,600
Payments of expenses to VAT businesses		43,000
Payments of expenses to Non-VAT businesses		35,000

61. The percentage tax due is
A. P8,000
B. P3,900
C. P11,010
D. None

62. The VAT payable is
A. P16,476
B. P9,750
C. P28, 704
D. P63, 730

63. Ka Pedring Matibag, a sole proprietor, buys and sells "kumot at kulambo" both of which are subject to value-added tax. Since he is using the calendar year as his taxable year, his taxable quarters end on the last day of March, June, September, and December. When should Ka Pedring file the VAT quarterly return for his gross sales for the period of July 1 to September 30?

A. Within 25 days from September 30
B. Within 45 days from September 30
C. Within 15 days from September 30
D. Within 30 days from September 30

64. Combined Company operates a VAT business and a non-Vat business. During the quarter, its books revealed the following record of sales and purchases:

Sales (Vat business)	P6,000,000
Sales (Non-Vat business)	2,000,000
Purchases(Vat business)	4,015,000
Purchases (Non-Vat business)	800,000
Purchases (for use in VAT and Non-Vat businesses)	640,000

The value-added tax payable by Combined Company is
A. P76,600
B. P60,600
C. P135,000
D. P180,600

65. MBM Corporation is the owner-operator of movie houses in Cavite. During the year 2024, it had a gross sales of P20 million from the operation of movies. It did not register as a VAT person. What statement below is correct?
A. MBM Corporation is exempt from the 12% VAT, but liable for the 10% amusement tax on admissions under the Local Government Code.
B. MBM Corporation is both liable for the 12% Vat and 20% amusement tax on admissions.
C. MBM Corporation is both exempt from the 12% VAT and 10% amusement tax on admissions.
D. MBM Corporation is liable for the 12% VAT, but exempt from the 10% amusement tax on admissions.

66. Inside Job Security Agency is engaged in the selling of security services to various clients. During the quarter, it sold/billed to one of its clients the following:

Monthly salary	P16,000
13th month pay	16,000
Agency fee at 15%	4,800
SSS and PhilHealth	1,300
Leave with pay	450
Total	38,550

Based on the above data, how much is the Output VAT payable of Inside Job Security Agency?
A. P2,496.00
B. P4,626.00
C. P4,130.36
D. P1,478.57

67. Celebrado, a VAT registered taxpayer, had the following data on importation in 2024:

	For Sale	Own Use
Invoice cost (Exchange rate: $1 = P50)	$5,650	$850
Customs duties	12%	10%
Freight	20,000	4,000
Insurance	28,000	4,250
Other charges before release from customs house	7,000	2,500
Facilitation fee	10,000	5,000
Freight from customs house to warehouse (net of VAT)	12,000	1,200

Assuming the customs duties are determined on the basis of the quantity or volume of the goods, the VAT on the importation is

A. P51, 468
B. P37, 285
C. P47,981.76
D. P44,742.00

68. Period within which refund/credit of input taxes shall be made
A. within ninety (90) days from the date of submission of the invoices and other documents in support of the application filed.
B. within ninety (90) days from the date of payment of the tax
C. within sixty (60) days from the date of submission of the invoices and other documents in support of the application filed.
D. within sixty (60) days from the date of payment of the tax

69. Which of the following statements is false on Sinadiri Merchandising?
A. The city government shall withhold a final withholding VAT of 5%
B. The city government shall withhold a creditable income tax of 1%.
C. The BIR Form on taxes withheld in the 3rd quarter shall be filed by the city government on or before October 31
D. The city government shall withhold a creditable VAT of 5%

70. In 2023, Open Sesame Corporation, a closely held corporation, decided to open itself to the public. Thine initial public offering of its shares had a selling price of P6,250,000 which is 22.5% of its total outstanding shares after the listing in the local stock exchange. The percentage tax due is

A. P31,250
B. P125,000
C. P37,500
D. P250,000

----end----

Cost Accounting and Control Midterm Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

AEC 08: Cost Accounting and Control

MIDTERM EXAMINATION
1st Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Introduction to Cost Management	1.5	6.25%	3	1, 5	2, 4	3				5*
Basic Cost Management Concepts	4.5	18.75%	9	6, 7	9, 10, 12	8, 11, 13, 14				9
Cost Behavior and Forecasting	6	25%	10		18	15, 16, 17, 41, 42				6*
Activity-Based Costing	6	25%	10			19, 20, 21, 27, 28, 29, 31, 32, 33				9*
Product and Service Costing: Job-order System	6	25%	10	22, 23	30	24, 25, 26, 34, 35, 36, 37, 38, 39, 40				13*
TOTAL	**24**	**100%**	**42**							**42**

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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Univesity of Southern Mindanao
College of Business, Development Economics and Management
ACCOUNTANCY DEPARTMENT

AEC 08: Cost Accounting and Control
MIDTERM EXAMINATION
1st Semester, SY 2024-2025

Name: _____
Year/Corse/Section: _____

General Instruction:
1. Use black or blue BALLPEN.
2. Read instructions carefully.
3. Write all answers in your answer sheet.
4. Erasures/Alteration/Impositions are not allowed for Part I.
5. You are allowed to write and put marks on this questionnaire. You can also use the extra sheet as a solution paper. But do not detach the extra sheet.
6. Use your time wisely.

Part I. Multiple Choice. Shade the letter of your choice in the answer sheet.

1. Accounting reports that provide feedback by comparing planned (budgeted) data with actual data are called
A) performance reports. C) auditing reports.
B) favorable reports. D) improvement reports.

2. Cost accounting
A) is concerned with assigning costs to various cost objects.
B) provides cost information that supports planning, controlling, and decision making.
C) Only A
E) Both A and B

3. Disclosing company information (when not legally obligated to do so) would be a violation of which of the following parts of the IMA code of ethics?
A) competence C) independence
B) confidentiality D) credibility

4. Staff positions are positions that are
A) directly involved in both financial and nonfinancial measures of efficiency of an organization.
B) supportive in nature and have only indirect responsibility for an organization's basic objectives.
C) supportive in nature and indirectly assess the overall cost impact of product designs over a product's life cycle.
D) directly responsible for carrying out the basic objectives of an organization.

5. Which of the following activities is associated with the cost management information system?
A) preparing reports for division managers
B) preparing reports for the BIR
C) preparing reports for the SEC
D) preparing financial statements that conform to GAAP

6. A cost that expires without producing any revenue benefit is known as a[No]
A) loss. B) expense. C) profit. D) surplus.

7. An example of a nonproduction cost is
A) wages paid to assembly line employees.
B) manufacturing supplies.
C) insurance on manufacturing facilities.
D) the treasurer's salary.

8. Factory overhead costs for the given period were 2 times as much as the direct material costs. Prime costs totaled $8,000. Conversion costs totaled $11,350. What is the direct labor costs for the period?
A) $4,650. B) $3,560. C) $4,200. D) $3,860.

9. Which of the following best describes a fixed cost?
A) It may change in total when such change is unrelated to changes in production volume.
B) It may change in total when such change is related to changes in production volume.
C) It is constant per unit of change in production volume.
D) It may change in total when such change depends on production volume within the relevant range.

10. Prime cost and conversion cost share what common element of total cost?
A) Direct labor. C) Variable overhead.
B) Direct materials. D) Fixed overhead.

11. A company usually processes 20,000 orders at a total cost of $250,000. During the year, only 10,000 orders were processed. What is the cost of unused activity?
A) $200,000 B) $240,000 C) $150,000 D) $125,000

12. An equipment lease that specifies a payment of $8,000 per month plus $7 per machine hour used is an example of a
A) fixed cost. B) variable cost. C) step cost. D) mixed cost.

13. Fixed cost per unit is $7 when 25,000 units are produced and $5 when 35,000 units are produced. What is the total fixed cost when nothing is produced?
A) $130,000 B) $200,000 C) $12 D) $175,000

14. The variable cost of finished goods unsold at year end is:

Beginning inventory units	0
Unit produced	4,800
Units sold	4,000
Sales	$400,000
Materials cost (variable)	$96,000
Variable conversion cost	$48,000
Fixed manufacturing costs	$72,000
Indirect operating costs (fixed)	$80,000

a. $110,000 c. $144,000 e. $40,000
b. $120,000 d. $24,000

15. Which of the following is an advantage of using the scatterplot method over the high-low method to estimate costs?
A) It is a statistical method to determine the "best fit."
B) A cost analyst can review the data visually and eliminate outliers.
C) The quality of the cost formula relies on the objective judgment of the analyst.
D) The cost formula can be determined simply by looking at two points of data.

16. Georgia Meadows Company uses the high-low method to analyze production costs. The following information relates to the production data for the first six months of the year.

Month	Cost(Y)	Hours(H)
January	$ 8,542	6,530
February	$ 7,750	5,950
March	$ 9,700	7,500
April	$ 7,435	5,700
May	$ 7,200	5,500
June	$ 9,263	6,750

What is the unit variable cost?
A) $1.00 B) $1.25 C) $1.50 D) $0.58

17. Using the information above, what is the estimated total cost at an operating level of 8,000 hours?
A) $9,525. B) $9,835. C) $10,185. D) $10,325.

18. Material amounts of under- or overapplied overhead should be
A) treated as an adjustment to cost of goods sold.
B) treated as an adjustment to work in process.
C) allocated to direct materials, work in process, and finished goods.
D) allocated to work in process, finished goods, and cost of goods sold.

19. The following information is provided by Sutton Corporation for the year:

Actual overhead	$450,000
Actual machine hours worked	25,000
Budgeted machine hours	27,500
Applied overhead	$487,500

If normal costing is used (based on machine hours), total budgeted overhead cost used to calculate the predetermined rate would be

A) $443,250 B) $450,000 C) $487,500 D) $536,250

20. A debit to Materials Inventory indicates materials were
A) ordered.
B) ordered and requisitioned.
C) put into production.
D) purchased

21. The application of overhead to production includes an entry to
A) Debit to overhead control
B) Debit to finished goods
C) Credit to overhead control
D) Credit to work in process

22. A system that assign(s) costs by the job is termed
A) a process-costing system.
B) a job-order costing system.
C) a project-costing system.
D) both a process-costing system and a project-costing system.

23. The cost of direct materials is assigned to a job by the use of a source document known as a
A) job cost sheet. C) materials requisition form.
B) control account. D) production order.

24. Nautical Corporation manufactures custom-made wood wall units. The following data pertain to Job X4A:

Direct materials placed into production	$9,000
Direct labor hours worked	300 hours
Direct labor rate per hour	$15
Machine hours worked	100 hours
Factory overhead rate is	$22.50 per machine hour.

Job X4A consists of 500 units. One-half of Job X4A was sold for $10,000. What is the total amount of costs assigned to Job X4A?
A) $20,250 B) $15,750 C) $13,500 D) $9,000

25. Using the information above, what is the cost of finished goods inventory?
A) $15,750 B) $9,000 C) $7,875 D) $10,000

26. Using the information above, what is the gross profit for the units sold?
A) $-5,750 B) $2,125 C) $250 D) $10,000

27. Tandem Company manufactures two products (D and F).

PRODUCT	NUMBER OF SETUPS	MACHINE HOURS	PACKING Orders
D	10	500	75
F	10	2,000	175

The overhead costs ($84,000) have been divided into three cost pools that use the following activity drivers:

Activity name	Activity driver	Cost
Set-up	Number of setups	$9,000
Machining	Machine hours	$60,000
Packing	Packing orders	$15,000
	Total costs	$84,000

Using Activity Based Costing, what is the cost of packing orders allocated to product D?
A) $4,500 B) $3,000 C) $7,500 D) $5,000

28. Using Activity Based Costing, what is the cost allocated to product D?
A) $16,800 B) $21,000 C) $42,000 D) $28,000

29. Green Company is planning to introduce a new product with a 75% incremental unit-time learning curve for production in batches of 1,500 units. The variable labor costs are $55 per unit for the first 1,500-unit batch. Each batch requires 200 hours. There are $15,000 in fixed costs not subject to learning. What is the cumulative total time (labor hours) to produce 3,000 units?
A) 350 hours
B) 250 hours
C) 300 hours
D) 255 hours

30. In an approximately relevant ABC system,
A) all activities still are separated into pools; they are allocated on estimated activity levels.
B) only the most expensive activities are allocated using appropriate cause-and-effect drivers.
C) cost pools are limited to only two cost pools.
D) None of these choices

Part II. Straight Problems

Show your solution. No solution, no points. Wrong solution, no points. Solutions should be clean and neat but they do not need to be labeled in good form. Just make sure to BOX your final answer for each number. Use the space provided in the answer sheet and the extra sheets of paper.

31. Gold Bank provided the following data about 2 checking account products namely Savings Account and Checking Account: The total overhead cos of the bank is 460,000. The information on total costs and activities are below:

Activities	Driver	Time per unit of activity in hours
Processing account	No. of accounts	0.20 hour
Issuing statements	No. of statements	0.10 hour
Processing transactions	No. of transactions	0.05 hour
Answering inquiries	No. of inquiries	0.15 hour

At practical capacity, Gold Bank uses 25,000 hours. The bank uses Time Driven Activity Based Costing to assig costs.

What is the capacity cost rate of the bank? Round off to 2 decimal places.

32. Using the information above, what is the activity rate of processing account using TDABC? Round off to 2 decimal places.

33. Using the above information on TDABC for the cost assignment, what is the total overhead cost assigned to Saving Account product given the activity usage of the two products provided below:

Activity	Savings Account	Checking Account
Processing account	2,000 accounts	1,000 accounts
Issuing statements	60,000 statements	10,000 statements
Processing transactions	160,000 transactions	120,000 transactions
Answering inquiries	1,500 inquiries	1,500 inquiries

The total overhead assigned to Savings Account is:

34. On July 1, SG Company work in process beginning balances are provided. The overhead is assigned in relation to direct labor.

	Job 1	Job 2
Direct materials	$1,500	$2,000
Direct labor	2,000	1,200
Overhead	1,200	720

There were no materials and finished goods inventory on July 1. During July, one more job was started. Information on the materials requisitioned and labor ticket for all jobs in July are as follows:

	Job 1	Job 2	Job 3
Direct materials	$700	$1,200	$2,500
Direct labor	1,000	1,300	1,800

Before the end of July, Jobs 1 and 2 were completed. In addition, Job 1 was sold for $12,000. What is the percentage of predetermined overhead based on direct labor?

35. Using the above information, what is the cost of Job 1 at the end of July?

36. Using the above information, what is the cost of Job 2 at the end of July?

37. Using the above information, what is the cost of Job 3 at the end of July?

38. Using the above information, what is the finished goods inventory balance at the end of July?

39. Using the above information, what is the work in process inventory balance at the end of July?

40. Using the above information, what is the cost of goods sold at the end of July?

41. Thor Company is interested in establishing the relationship between electricity costs and machine hours. Data have been collected and a regression analysis prepared using Excel. The result is presented below:

SUMMARY OUTPUT				
Regression Statistics				
Multiple R	965			
R Square	932			
Adjusted R Square	925			
Standard Error	1,425.18			
Observations	12.00			
	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	3,726.88	1,682.82	2.21	0.05
Machine Hours	5.77	0.49	11.7	0.00

Based on the results of the regression analysis, the estimate of electricity costs in a month with 2,200 machine hours would be: (Round off to 2 decimal points)

42. Using the information above, what percent of the total variance that can be explained by the cost equation? Is it good? Explain your answer.

Bonus Questions
1. What year did the University of Southern Mindanao offer the BS Accountancy program?
2. What year did the University of Southern Mindanao offer the BS Management Accounting program?

--End of the Exam--

"The more that you read, the more things you will know, the more that you learn, the more places you'll go."
– Dr. Seuss

"Whether you think you can or you can't, you're right."
– Henry Ford

Cost Accounting and Control Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

AEC 08: Cost Accounting and Control

FINAL EXAMINATION
1st Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Process Costing	9	37.5%	16		1, 7	2, 3, 4, 5, 6, 8, 9, 33, 34, 35, 36, 37, 40, 41, 42				17*
Allocating Costs of Support Departments and Joint Products	6	25%	11	16, 18	10, 12, 14, 17	11, 13, 15, 38, 39				11
Standard Costing: A Functional-Based Control Approach	6	25%	10		19, 20, 21	23,	22, 24, 25, 26, 27, 28			10
Quality and Environmental Cost Management	3	12.5%	5		29, 30, 31		32			4*
TOTAL	**24**	**100%s**	**42**							42

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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USM-EDU-F25-Rev.1.2021.06.10

University of Southern Mindanao
College of Business, Development Economics and Management
AEC 08: Cost Accounting and Control
FINAL EXAMINATION
1st Semester, Sy 2024-2025
SET A

General instructions:
1. Read instructions.
2. Use blue/black ballpen only.
3. No erasures and/or alterations allowed.
4. You are allowed to write and put marks on this questionnaire. You can also use the extra sheet as a solution paper. But do not detach the extra sheet.
5. Use your time wisely.

Shade the letter of your choice in the answer sheet.

1. Abnormal spoilage is treated differently from normal spoilage in what way?
   A. Equivalent units are calculated for abnormal spoilage but not for normal spoilage.
   B. Equivalent units are calculated for normal spoilage but not for abnormal spoilage.
   C. Normal spoilage is absorbed as part of the product cost but abnormal spoilage costs are treated separately.
   D. Abnormal spoilage is not assigned costs but normal spoilage is.

2. Allen Company has the following information for the Assembly Department for the month of October:

Materials purchased	$ 45,000
Materials used	49,000
Direct labor	30,000
Actual manufacturing overhead	56,000
Cost of goods completed and transferred to the Finishing Department (the next department)	125,000

Overhead rate is 200% of direct labor costs.
Allen Company uses a process-costing system for the Assembly Department. The journal entry to record materials purchased would include
   A. a debit to Materials Inventory for $45,000.
   B. a debit to Materials Inventory for $49,000.
   C. a credit to Accounts Payable for $49,000.
   D. both a debit to Materials Inventory for $49,000 and a credit to Accounts Payable for $49,000.

3. Using the above information, Allen Company uses a process-costing system for the Assembly Department. What is the total debit amount to Work in Process—Assembly for October?
   A. $125,000C. $139,000
   B. $131,000D. $109,000

4. Using the above information, Allen Company uses a process-costing system for the Assembly Department. The journal entry to record goods completed and transferred out of the Assembly Department and into the Finishing Department would include a
   A. debit to Finished Goods Inventory for $125,000.
   B. credit to Materials Inventory for $125,000.
   C. debit to Work in Process—Assembly for $125,000.
   D. debit to Work in Process—Finishing for $125,000.

5. Cadmium Corporation manufactures leather bags. The following information pertains to the month of August:

	Units
Work in process, August 1 (40% complete)	900
Started in August	4,000

Materials are added at the beginning of the process. If 3,700 units were completed during the month, ending work in process on August 31 is
   A. 1,200 units. C. 2,700 units.
   B. 2,000 units. D. 1,000 units.

6. Equivalent units express all activity of the period in terms of
   A. direct labor hours.
   B. partially completed units.
   C. fully completed units.
   D. fully completed and partially completed units

7. In a process-costing system, which of the following would be TRUE?
   A. There is no need to use time tickets to assign costs to processes.
   B. There is no need to track materials to processes.
   C. A process-costing system is more expensive to maintain because it has more work-in-process accounts.
   D. All of these choices

8. Julius Corporation's Mixing Department began January with 10,000 gallons of product (40% completed) in process. During January, Julius started 100,000 gallons of new product, of which 15,000 gallons remained in ending inventory (70% completed). If materials were added at the beginning of the process, how many equivalent units of production for conversion costs would there be for Julius using the FIFO costing method?
   A. 101,500 units
   B. 110,000 units
   C. 105,500 units
   D. 116,500 units
   E. None of these choices

9. Using the above information, if materials were added when the units are 50% complete, how many equivalent units of production for materials would there be for Julius Corporation using the FIFO costing method?
   A. 101,500 units
   B. 105,500 units
   C. 110,000 units
   D. 85,000 units
   E. None of these choices

10. A common cost occurs when
    A. only one product or service is benefited.
    B. different resources are used to produce one output.
    C. the same resource is used in the output of two or more outputs.
    D. a resource is used by two or more companies.

11. A company incurred $120,000 of common fixed costs and $180,000 of common variable costs. These costs are to be allocated to Departments XX and YY. Data on capacity provided and capacity used are as follows:

Department	Capacity Provided In Hours	Capacity Used In Hours
XX	500	400
YY	300	400

Assume that common fixed costs are to be allocated to Departments XX and YY on the basis of capacity provided and that common variable costs are to be allocated to Departments XX and YY on the basis of capacity used. The fixed and variable costs allocated to Department XX are:

	Fixed	Variable
A.	$75,000	$112,500
B.	$75,000	$90,000
C.	$60,000	$112,500
D.	$60,000	$90,000
E.	None of these choices	

12. A joint cost allocation method that could potentially assign the same amount of cost per unit to two joint products that sell for $10 and $40, respectively, is the
    A. sales-value-at-split-off method.
    B. direct allocation method.
    C. net realizable value method.
    D. physical unit method.

13. Cumadin Corporation, which manufactures Products W, X, Y, and Z through a joint process costing $18,000, has the following data for the year:

Product	Units Produced	Sales Value at Split-Off
W	10,000	$5,000
X	6,000	2,500
Y	16,000	3,000
Z	8,000	4,500

What is the amount of joint costs assigned to Product X using the sales-value-at-split-off method?
   A. $18,000 D. $2,700
   B. $3,000 E. None of these choices
   C. $10,000

14. Examples of support departments include all of the following EXCEPT
    A. maintenance.
    B. personnel.
    C. machining.
    D. data processing.

15. Howard Company has two support departments (S1 and S2) and two producing departments (P1 and P2). Department S1 costs are allocated on the basis of number of employees, and Department S2 costs are allocated on the basis of space occupied expressed in square feet.

Data on direct department costs, number of employees, and space occupied are as follows:

	S1	S2	P1	P2
Direct department costs	$7,500	$11,000	$27,500	$30,000
Number of employees	10	5	20	25
Space occupied (sq. ft.)	1,000	500	1,500	2,500

If Howard used the reciprocal method, the algebraic equation expressing the total costs allocated from S1 is
   A. S1 = $7,500 + 0.10S2.
   B. S1 = $7,500 + 0.20S2.
   C. S1 = $10,000 + 0.20S2.
   D. S1 = $10,000 + 0.10S2.
   E. None of these choices

16. Products with substantial value that are produced simultaneously by the same process up to a split-off point are called
    A. joint products.
    B. minor products.
    C. by-products.
    D. both joint products and minor products.

17. Ruling Company assigns plant administration costs to the production departments based on the number of employees. Which of the following would NOT be a good combination of common costs with an activity driver?
    A. Personnel Department costs based on number of employees
    B. purchasing department costs based on machine hours
    C. cafeteria costs based on meals served
    D. warehouse costs based on the value of materials stored

18. Support departments
    A. are responsible for manufacturing the products sold to customers.
    B. work directly on the products of the firm.
    C. provide services directly to customers.
    D. provide essential services to the producing departments.

19. Fixed overhead volume variance is the difference between
    A. actual fixed overhead and standard direct labor hours that should have been used.
    B. budgeted fixed overhead and actual direct labor hours used.
    C. budgeted fixed overhead and applied fixed overhead.
    D. the actual fixed overhead and the budgeted fixed overhead.

20. Price/rate variances focus on the differences between actual and
    A. standard inputs multiplied by actual prices.
    B. standard unit prices of an input multiplied by the actual quantity of inputs.
    C. standard inputs multiplied by standard prices.
    D. standard unit prices of an input multiplied by the budgeted quantity of inputs.

21. Which of the following factors would cause an unfavorable labor rate variance?
    A. using higher-quality materials
    B. using low-efficiency workers
    C. using more unskilled workers
    D. using more highly skilled workers

22. Which of the following is the result of actual production being less than expected production?
    A. There is an unfavorable spending variance.
    B. There is a favorable spending variance.
    C. There is an unfavorable volume variance.
    D. There is a favorable volume variance.

23. Which of the following people is most likely responsible for an unfavorable variable overhead efficiency variance?
    A. production supervisor
    B. accountant
    C. personnel director
    D. supplier

24. Biscuit Company has developed the following standards for one of its products. Direct labor hours is the driver used to assign overhead costs to products.

Direct materials:	10 pounds × $3 per pound
Direct labor:	2.5 hours × $6 per hour
Variable manufacturing overhead:	2.5 hours × $2 per hour
The following activity occurred during the month of June:	
Materials purchased:	125,000 pounds at $2.60 per pound
Materials used:	110,000 pounds
Units produced:	10,000 units
Direct labor:	24,000 hours at $7.50 per hour
Actual variable manufacturing overhead:	$51,000

The company records materials price variances at the time of purchase. The direct labor rate variance is
   A. $12,000 favorable.
   B. $8,000 favorable.
   C. $12,000 unfavorable.
   D. $8,000 unfavorable.

25. Using the information above, the company records materials price variances at the time of purchase. The direct labor efficiency variance is
    A. $8,000 unfavorable.
    B. $8,000 favorable.
    C. $20,000 unfavorable.
    D. $20,000 favorable.

26. Using the information above, the company records materials price variances at the time of purchase. The variable manufacturing overhead efficiency variance is
    A. $1,000 favorable.
    B. $1,000 unfavorable.
    C. $2,000 favorable.
    D. $3,000 unfavorable.

27. Brooks Company uses a standard costing system. The following information pertains to direct materials for the month of June:

Standard price per lb	$15.00
Actual purchase price per lb	$14.50
Quantity purchased	3,150 lbs.
Quantity used	2,980 lbs.
Standard quantity allowed for actual output	3,000 lbs.
Actual output	1,000 units

Brooks Company reports its materials price variances at the time of purchase. What is the journal entry to record materials purchases?

A.	Materials	47,250	
	Materials Price Variance		1,575
	Materials Price Variance		45,675
B.	Materials	47,165	
	Materials Price Variance		1,490
	Accounts Payable		45,675
C.	Materials	47,175	
	Materials Price Variance		1,500
	Accounts Payable		45,675
D.	Materials	44,100	
	Materials Price Variance	1,575	
	Accounts Payable		45,675

28. The standard plus the allowable deviation is called the
    A. standard quantity.
    B. standard price.
    C. upper control limit.
    D. total budget variance.

29. Which of the following is NOT an internal failure activity?
    A) Treating and disposing of toxic waste
    B) Maintaining pollution equipment
    C) Licensing facilities for producing contaminants
    D) Cleaning up a polluted lake

30. The costs of a Consumer Complaint Department are
    A) external failure costs.
    B) internal failure costs.
    C) appraisal costs.
    D) prevention costs.

31. Labor and overhead incurred for rework of defective products found by an inspector is a[No]
    A) external failure cost.
    B) internal failure cost.
    C) appraisal cost.
    D) prevention cost.

32. Carbondioxide Chemical produces a number of chemical products, two of which are Product A1 and Product A2. The controller and environmental manager have identified the following environmental activities and costs associated with the two products:

	Product A1	Product A2
Pounds produced	200,000	500,000
Packaging materials (pounds)	60,000	30,000
Energy usage (kilowatt-hours)	20,000	10,000
Toxic releases (pounds into air)	50,000	10,000
Pollution control (machine hours)	8,000	2,000
Costs of activities:		
Using packaging materials	$90,000	
Using energy	24,000	
Releasing toxins (fines)	12,000	
Operating pollution control equipment	28,000	

Using ABC costing, what is the pollution control cost per unit of Product A2 (rounded to four decimal places)?
   A. $0.1120 B. $0.0280 C. $0.0112 D. $0.0448

Problem Solving. Show your solution.

33. Davidson Company uses the weighted average costing method. The following information was reported for the Assembly Process for January. Materials are added at the beginning of the process and are 100% complete.

	Units	% complete for conversions
Work in process, 1/1	60,000	15%
Started	105,000	
Work in process, 1/31	40,000	20%
Costs:	Materials	Conversion
Beginning work in process	$ 16,500	$ 33,250
Current costs	643,500	332,500

What are the equivalent units for materials?

34. Using the above information, what are the equivalent units for conversion?

35. Using the above information, what is the cost per unit for materials?

36. Using the above information, what is the cost per unit for conversion?

37. Using the above information, what is the cost assigned to the units completed and transferred to finishing?

38. Golden Leaves Company has two support departments, Maintenance Department (MD) and Personnel Department (PD), and two producing departments, P1 and P2. The Maintenance Department costs of $30,000 are allocated on the basis of standard service used. The Personnel Department costs of $4,500 are allocated on the basis of number of employees. The direct costs of Departments P1 and P2 are $9,000 and $15,000, respectively.

Data on standard service hours and number of employees are as follows:

	MD	PD	P1	P2
Standard service hours used	100	50	300	150
Number of employees	10	20	90	90
Direct labor hours	50	50	250	250

Using the sequential method, if the support department are ranked in order of their total costs from highest to lowest, the total costs allocated to P1 is

39. Using the information above, if the support department are ranked in order of their total costs from highest to lowest, the total costs allocated to P2 is

40. During September, 40,000 units were produced. The standard quantity of materials allowed per unit was 5 pounds at a standard cost of $2.50 per pound. If there was a favorable usage variance of $25,000 for September, the actual quantity of materials used must have been

41. The following information is available for Jenkins Manufacturing Company for the month of June when the company produced 2,100 units:

Standard:
Material 2 pounds per unit @ $5.80 per pound
Labor 3 direct labor hours per unit @ $10.00 per hour

Actual:
Material 4,250 pounds purchased and used @ $5.65 per pound
Labor 6,300 direct labor hours at $9.75 per hour

Refer to Jenkins Manufacturing Company. What is the material price variance?

42. Refer to Jenkins Manufacturing Company. What is the material quantity variance?

--The End--

"Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence."
– Helen Keller

For I know the plans I have for you," declares the Lord, "plans to prosper you and not to harm you, plans to give you hope and a future.
– Jeremiah 29: 11

Intermediate Accounting 2 Midterm Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

AEC 14: Intermediate Accounting 2
MIDTERM EXAMINATION
1ST Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Liabilities	0.35	5%	3	2		21, 23				3
Premium Liability	1.65	13%	8		11, 12	13, 14, 26, 27	24, 25			8
Warranty Liability	1	8%	5	3	15, 16	17, 18				5
Provisions, Contingent Liabilities and Contingent Assets	1	8%	5	1, 6	19, 20	22				5
Bonds Payable	2	5%	3	4		28	29			3
Effective Interest Method	2	7%	4	7, 8		30	31			4
Compound Financial Instrument	6	8%	5		32	33	34, 35, 36			5
Notes Payable	2	8%	5		39	37, 40	38, 41			5
Debt Restructure	3	10%	6		42, 43, 44	45, 46, 47				6
Leases	10	27%	16	5, 9, 10	48, 51, 52, 59	49, 50, 53, 55, 56, 57, 60	54, 58			16
TOTAL	**29**	**100%**	**60**							**60**

*Rounded off

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USM-EDU-F25-Rev.1.2021.06.10

NAME: _____ CLASS & SECTION: _____

UNIVERSITY OF SOUTHERN MINDANAO
College of Business, Development Economics and Management
INTERMEDIATE ACCOUNTING 2
MIDTERM – EXAM

Part I. Theories
Instruction: Encircle the letter of the BEST answer.

1. Which is the correct definition of a provision?
   a. A possible obligation arising from past events
   b. A liability of uncertain timing or uncertain amount
   c. A liability which cannot be easily measured
   d. An obligation to transfer funds to an entity
2. A legal obligation is an obligation that is derived from all of the following, except:
   a. Legislation
   b. A contract
   c. Other operation of law
   d. An established pattern of past practice
3. An entity sells machines that include a three-year warranty. Service calls under the warranty are performed by an independent mechanic under a contract with the entity. Warranty costs are expected to be incurred for each machine sold. The warranty costs should be recognized
   a. Evenly over the life of the warranty
   b. When the machines are sold
   c. When the service calls are performed
   d. When payments are made to the mechanic
4. The proceeds from the sale of a bond will be equal to
   a. The face amount of the bond.
   b. The present value of the face amount of the bond plus the present value of the interest payments to be made during the life of the bond.
   c. The face amount of the bond plus the present value of the interest payments.
   d. The sum of the face amount of the bond and the periodic interest payments.
5. If the residual value of an underlying asset is greater than the amount guaranteed by the lessee
   a. The lessor pays the lessee for the difference
   b. The lessee recognizes a gain at the end of the lease term
   c. The lessee has no obligation related to the residual value
   d. The lessee pays the lessor for the difference
6. General contingencies or unspecified risks should
   a. Be accrued in the financial statements and disclosed in the notes
   b. Not be accrued in the financial statements and need not be disclosed in the notes.
   c. Not be accrued in the financial statement but should be disclosed in the notes.
   d. Be accrued in the financial statements but need not be disclosed in the notes.
7. Under the effective interest amortization, the periodic interest expense is equal to
   a. The stated rate of interest multiplied by the face amount of the bonds.
   b. The market rate of interest multiplied by the face amount of the bonds.
   c. The stated rate multiplied by the beginning carrying amount of bonds payable.
   d. The market rate multiplied by the beginning carrying amount of bonds payable.
8. What is the impact of amortization of the bond premium each period?
   a. Interest expense being greater than the amount of cash paid for interest
   b. Cash paid for interest being greater than interest expense
   c. Interest expense and cash paid are equal using straight line
   d. Interest expense and cash paid are equal using effective interest.
9. Which statement is true about low value lease?
   a. The value of an underlying asset is based on the value of the asset when new regardless of the age of the asset.
   b. The term of a low value lease may be more than twelve months.
   c. An underlying asset does not qualify as low value lease if the nature of the asset is such that the asset is typically not of low value when new.
   d. All of these statements are true about low value lease14%
10. Which is a correct statement of one of the lease capitalization criteria on the part of lessor?
    a. The lease transfers ownership of the property to the lessor.
    b. The lease contains a purchase option.
    c. The lease term is equal to or more than 75% of the economic life of the leased property.
    d. The lease payments excluding executory costs equal or exceed 90% of the fair value of the leased property

Part II. Problem Solving
Instruction: Round off the PV factors up to four decimal places; all other values shall be rounded to the nearest whole number. Choose the BEST answer. Encircle the letter of your answer.

During the current year, an entity sold 500,000 boxes of cake mix under a new sales promotional program. Each box contained one coupon which entitles the customer to a baking pan upon remittance of ₱40. The entity paid ₱50 per pan and ₱5 for handling and shipping and estimated that 80% of the coupons would be redeemed, even though only 300,000 coupons had been processed during the year.

11. What amount should be reported as premium expense for the current year?
a. 6,000,000 b. 7,500,000 c. 4,500,000 d. 2,000,000

12. What amount should be reported as liability for unredeemed coupons at year end?
a. 1,000,000 b. 1,500,000 c. 3,000,000 d. 5,000,000

An entity included one coupon in each box of laundry soap sold. A towel is offered as a premium to customers who send in 5 coupons and a remittance of ₱10. Distribution cost of premium is ₱5. Experience indicated that only 40% of the coupons will be redeemed.

	2023	2024
Boxes of soap sold	1,000,000	1,500,000
Number of towels purchased as ₱40 each	90,000	130,000
Coupons redeemed	350,000	500,000

13. What is the premium expense for 2024?
a. 4,800,000 b. 3,600,000 c. 4,200,000 d. 5,400,000

14. What is the estimated premium liability on December 31, 2024?
a. 1,050,000 b. 1,200,000 c. 700,000 d. 800,000

An entity started business in 2023 and sold printers with a three-year warranty. The entity estimated its warranty cost as a percentage of peso sales. It is estimated that 3% will be repaired during the first year of warranty, 5% will be repaired during the second year of warranty and 10% will be in the third year.
In 2023 and 2024, the entity was able to sell 7,500 and 10,000 units, respectively at a selling price of ₱4,000 per unit. The entity also incurred actual repair cost of ₱800,000 and ₱2,400,000 in 2023 and 2024, respectively. Sales and repairs occur evenly throughout the period.

15. What amount should be reported as unadjusted warranty expense for 2024?
a. 5,400,000 b. 7,200,000 c. 2,400,000 d. 1,500,000

16. What amount should be reported as unadjusted warranty liability on December 31, 2024?
a. 5,400,000 b. 7,200,000 c. 9,400,000 d. 4,800,000

17. What amount should be reported as adjusted warranty liability on December 31, 2024?
a. 9,675,000 b. 9,600,000 c. 9,300,000 d. 8,100,000

18. What amount should be reported as adjusted warranty expense for 2024?
a. 7,475,000 b. 6,925,000 c. 7,200,000 d. 7,400,000

On January 15, 2023, an explosion occurred at an entity plant causing extensive property damage to area buildings. By March 1, 2024, no claims had been asserted against the entity but management and counsel concluded that it is likely that claims will be asserted and that it is probable that the entity will be responsible for damages. Management believed that ₱4,000,000 would be a reasonable estimate of the liability. The entity had a ₱5,000,000 comprehensive public liability policy with a ₱500,000 deductible clause. The financial statements for 2023 were issued on March 31, 2024.

19. What amount of loss from lawsuit should be reported in 2023?
a. 4,000,000 b. 1,000,000 c. 500,000 d. 0

20. What amount should be accrued as provision on December 31, 2023?
a. 5,000,000 b. 2,500,000 c. 3,500,000 d. 4,000,000

An entity required advance payments with special orders for machinery constructed to customer specifications. These advances are nonrefundable. During the current year, the entity reported beginning advances from customers ₱2,500,000, advances received with orders ₱2,900,000, advances applied to orders shipped ₱2,700,000 and advances applicable to orders canceled ₱500,000.

21. What amount should be reported as current liability for advances from customers at year-end?
a. 2,200,000 b. 2,700,000 c. 5,350,000 d. 2,900,000

During 2023, an entity was the defendant in a breach of patent lawsuit. The lawyers believed there is an 80% chance that the court will not dismiss the case. If the court rules in favor of the claimant, the lawyers believed that there is a 60% chance that the entity will be required to pay damages of ₱2,000,000 and a 40% chance that the entity will be required to pay damages of ₱1,000,000. Other amounts of damages are unlikely.
The court is expected to rule in late December 2024. A 7% risk adjustment factor to the cash flows is considered appropriate to reflect the uncertainties in the cash flow estimates. An appropriate discount rate is 10% per year. The present value of 1 at 10% for one period is 0.91.

22. What should be accrued as provision on December 31, 2023?
a. 1,280,000 b. 1,369,600 c. 1,500,000 d. 1,246,336

An entity had an agreement to pay its sales manager a bonus of 10% of the income after bonus and after tax. The income for the year before bonus and before tax is ₱6,000,000. The income tax rate is 25% of income after bonus.

23. What is the bonus for the year?
a. 418,605 b. 500,000 c. 697,675 d. 558,140

An entity, a grocery retailer, operates a customer loyalty program. The entity grants program members loyalty points when they spend a specified amount on groceries. Program members can redeem the points for further groceries. The points have no expiry date. During 2023, the sales amounted to ₱8,800,000 based on stand-alone selling price. During the year, the entity granted 60,000 points. But management expected that 100% of these points will be redeemed. The stand-alone selling price of each loyalty point is estimated at ₱20. On December 31, 2023, 28,800 points have been redeemed. In 2024, management revised its expectations and now expected that 90% points will be redeemed altogether. During 2024, the entity redeemed 9,000 points.

24. What amount should be reported as sales revenue for 2023?
a. 6,800,000 b. 5,780,000 c. 7,820,000 d. 6,269,600

25. What amount should be reported as revenue earned from loyalty points for 2024?
a. 224,400 b. 714,000 c. 170,000 d. 510,000

An entity sold gift certificates worth ₱8,000,000 to customers in exchange for future delivery of its product. The certificates are nonrefundable and the entity expected that 15% of the certificates will not be redeemed. During the year, the entity redeemed gifts certificates worth ₱5,100,000. The breakage revenue is equal to the proportion of value of certificates redeemed to the expected value of certificates to be redeemed multiplied by the expected value of breakage.

Expected value of breakage (8,000,000 × 15%)	1,200,000
Expected value of certificates to be redeemed (8,000,000 × 85%)	6,800,000

26. What amount should be recognized as breakage revenue from gift certificates for current year?
a. 600,000 b. 765,000 c. 900,000 d. 180,000

27. What amount should be reported as deferred revenue from gift certificates at year end?
a. 2,000,000 b. 2,135,000 c. 2,000,000 d. 1,700,000

An entity had the following long-term debt:

Bonds maturing in installments, secured by machinery	1,000,000
Bonds maturing on a single date, secured by realty	1,800,000
Collateral trusts bonds	2,000,000

28. What total amount should be reported as debenture bonds?
a. 2,000,000 b. 1,000,000 c. 1,800,000 d. 0

On July 1, 2023, an entity issued at 104, five thousand bonds of 10% ₱1, 000 face amount. The bonds were issued through an underwriter to whom the entity paid bond issue cost of ₱125,000.

29. On July 1, 2023, what amount should be reported as bond liability?
a. 4,875,000 b. 5,075,000 c. 5,200,000 d. 5,325,000

On January 1, 2023, an entity issued 5-year 5,000 bonds face amount of ₱1,000 per bond for ₱5,380,000 to yield 10%. Interest 12% is payable annually every December 31. On June 30, 2024, the entity retired 2,000 bonds at 96 plus accrued interest.

30. What amount should be recognized as gain or loss on bond retirement on June 30, 2024?
a. 193,560 gain b. 193,560 loss c. 179,920 gain d. 179,920 loss

31. What is the carrying amount of the remaining bonds payable on December 31, 2024?
a. 3,280,000 b. 3,190,800 c. 3,149,880 d. 3,129,420

An entity issued ₱5,000,000 face amount 5-year bonds at 109. Each ₱1,000 bond was issued with 50 nondetachable share warrants. Each warrant entitled the bondholder to purchase one share of ₱5 par value for ₱25. Immediately after issuance, the market value of each warrant was ₱5. The interest rate is 11% payable annually every December 31. The prevailing market rate of interest for similar bonds without warrants is 12%. The PV of 1 at 12% for 5 periods is 0.57 and the PV of an ordinary annuity of 1 at 12% for 5 periods is 3.60.

32. What is the initial carrying amount of bonds payable?
a. 5,450,000 b. 4,830,000 c. 5,000,000 d. 4,380,000

33. What amount should be recorded initially as discount or premium on bonds payable?
a. 170,000 discount b. 450,000 premium c. 450,000 discount d. 170,000 premium

34. What amount should be recorded as increase in equity as a result of the bond issuance?
a. 620,000 b. 450,000 c. 500,000 d. 550,000

35. What amount should be recorded as share premium if all the warrants are exercised?
a. 1,250,000 b. 2,500,000 c. 5,000,000 d. 5,620,000

On December 31, 2023, an entity had outstanding 10%, ₱5,000,000 face amount convertible bonds payable maturing on December 31, 2026. Interest is payable on June 30 and December 31. Each ₱1,000 bond is convertible into 50 shares of ₱10 par value. On December 31, 2023, the discount on bonds payable was ₱500,000. On December 31, 2023, all of the bonds were converted when

each share had a market price of ₱25. The entity incurred ₱200,000 connection with the conversion. No equity component was recognized when the bonds were originally issued.

36. What amount should be reported as share premium from the issuance of shares as a result of the bond conversion on December 31, 2023?
a. 2,000,000 b. 1,800,000 c. 3,750,000 d. 3,550,000

On September 1, 2023, an entity borrowed on a ₱6,000,000 note payable from a bank. The note bears interest at 12% and is payable in four equal annual principal payments of ₱1,500,000. On this date, the bank's prime rate was 10%. The first annual payment for interest and principal was made on September 1, 2024.

37. What amount should be reported as interest expense for 2024?
a. 480,000 b. 660,000 c. 540,000 d. 550,000

38. On December 31, 2024, what amount should be reported as accrued interest payable?
a. 240,000 b. 180,000 c. 200,000 d. 150,000

On December 31, 2023, an entity purchased a machine in exchange for a noninterest bearing note requiring eight payments of ₱500,000. The first payment was made on December 31, 2023 and others are due annually on December 31. At date of issuance, the prevailing rate of interest for this type of note was 11%. The PV of an ordinary annuity of 1 at 11% for 8 periods is 5.146, and the PV of an annuity of 1 in advance at 11% for 8 periods is 5.712

39. On December 31, 2023, what is the carrying amount of the note payable?
a. 2,856,000 b. 2,573,000 c. 2,356,000 d. 2,073,000

40. What amount should be reported as interest expense for 2024?
a. 314,160 b. 283,030 c. 259,160 d. 228,030

An entity reported the following liabilities on December 31, 2023:

Accounts payable	1,000,000
12% note payable issued November 1, 2022 maturing July 1, 2024	2,000,000
10% note payable issued October 1, 2022 maturing October 1, 2024	1,500,000
10% debentures payable, next annual principal installment of P500,000 due February 1, 2024	7,000,000

On January 31, 2024, the entity consummated a noncancelable agreement with the lender to refinance the 12% note payable on a long-term basis. On December 31, 2023, the entity has the right to roll over the 10% note payable for at least 12 months after the end of reporting period. The December 31, 2023 financial statements were issued on March 31, 2024.

41. In the December 31, 2023 statement of financial position, what total amount should be reported as current liabilities?
a. 3,500,000 b. 5,000,000 c. 3,000,000 d. 1,500,000

AA Company is indebted to BB under a ₱5,000,000, 12%, three-year note dated December 31, 2021. Because of AA's financial difficulties developing in 2023, AA Company owed accrued interest of ₱600,000 on the note on December 31, 2023. Under a debt restructuring on December 31, 2023, BB Company agreed to settle the note and accrued interest for a tract of land having a fair value of ₱4,000,000. The carrying amount of the land is ₱3,600,000.

42. Under IFRS, what amount should be recorded as gain on extinguishment of debt?
a. 1,400,000 b. 2,000,000 c. 1,000,000 d. 1,600,000

43. Under US GAAP, what amount should be recorded as gain on restructuring?
a. 1,600,000 b. 1,000,000 c. 1,400,000 d. 0

44. Under US GAAP, what amount should be recorded as gain on transfer of land?
a. 1,000,000 b. 1,600,000 c. 400,000 d. 600,000

Due to adverse economic circumstances and poor management, an entity had negotiated a restructuring of its 8% ₱6,000,000 note payable to Second Bank due on December 31, 2023. There is no accrued interest on the note. The bank has reduced the principal obligation from ₱6,000,000 to ₱5,000,000 and extend the maturity to 3 years on December 31, 2026. However, the new interest rate is 12% payable annually every December 31. The entity paid ₱120,000 to the creditor as an arrangement fee. The new effective rate is 9% after considering the arrangement fee. The present value of 1 at 8% for three periods is 0.79 and the present value of an ordinary annuity of 1 at 8% for three periods is 2.58.

45. What amount should be reported as gain on modification for 2023?
a. 502,000 b. 632,000 c. 372,000 d. 0

46. What is the discount or premium on the new note payable on December 31, 2023?
a. 498,000 premium b. 498,000 discount c. 378,000 premium d. 378,000 discount

47. What is the carrying amount of the note payable on December 31, 2024?
a. 5,262,020 b. 5,337,840 c. 5,000,000 d. 5,392,820

On December 31, 2023, an entity signed a 7-year finance lease for an airplane. The airplane's fair value was ₱8,415,000. The entity made the first annual lease payment of ₱1,530,000 on December 31, 2023. The entity's incremental borrowing rate was 12% and the interest rate implicit in the lease known to the lessee was 9%. The rounded present value factors for an annuity due are 5.50 at 9% for 7 years and 5.10 at 12% for 7 years.

48. What amount should be reported as lease liability on December 31, 2023?
a. 8,415,000 b. 7,803,000 c. 6,885,000 d. 6,273,000

49. What amount should be reported as interest expense for 2024?
a. 619,650 b. 826,200 c. 757,350 d. 841,500

50. In recording the December 31, 2024, by what amount should the lease liability be reduced?
a. 856,800 b. 520,200 c. 910,350 d. 703,800

At the beginning of current year, an entity sold a building with remaining life of 20 years and immediately leased it back for 5 years.

Sale price at above fair value	6,000,000
Fair value of building	5,000,000
Carrying amount of building	4,500,000
Annual rental payable at the end of each year	800,000
Implicit interest rate	12%
Present value of an ordinary annuity of I at 12% for five periods	3.60

51. What is the initial lease liability?
a. 2,880,000 b. 1,880,000 c. 2,120,000 d. 1,620,000

52. What is the cost of right of use asset?
a. 2,880,000 b. 1,880,000 c. 1,692,000 d. 4,500,000

53. What is the gain on right transferred?
a. 312,000 b. 500,000 c. 800,000 d. 400,000

54. What amount should be reported as gross rental income of the buyer-lessor for current year?
a. 522,222 b. 277,778 c. 800,000 d. 400,000

An entity is a dealer in machinery. At the beginning of current year, a machinery was leased to another entity under a sales type lease with the following provisions:

Annual rental payable at the end of each year	3,000,000
Lease term and useful life of machinery	5 years
Cost of machinery	8,000,000
Fair value of equipment on date of lease	12,000,000
Guaranteed residual value	1,000,000
Implicit interest rate	12%
PV of an ordinary annuity of I for 5 periods at 12%	3.60
PV of 1 for 5 periods at 12%	0.57

The equipment shall revert to the lessor at the end of lease term. The perpetual inventory system used. The lessor incurred initial direct cost of ₱300,000 in finalizing the lease agreement.

55. What is the gross investment in the lease?
a. 15,000,000 b. 16,000,000 c. 12,000,000 d. 11,000,000

56. What is the net investment in the lease?
a. 10,800,000 b. 11,370,000 c. 8,000,000 d. 9,000,000

57. What amount of interest income should be recognized for the current year?
a. 1,364,400 b. 1,296,000 c. 1,320,000 d. 1,440,000

58. What amount should be reported as gross income on sale for the current year?
a. 3,070,000 b. 7,700,000 c. 2,500,000 d. 3,370,000

An entity is in the business of leasing equipment under a direct financing lease. The lessor expects a 12% return on net investment after considering the initial direct cost. At the end of the lease term, the equipment shall revert to the lessor. At the beginning of current year, an equipment is leased to a lessee with the following information:

Cost of equipment to the lessor	5,000,000
Residual value unguaranteed	600,000
Annual rental payable in advance at the beginning of each year	900,000
Initial direct cost incurred by the lessor	250,000
Useful life and lease term	8 years
Implicit interest rate after initial direct cost	12%

59. What is the gross investment in the lease?
a. 7,200,000 b. 7,800,000 c. 5,000,000 d. 5,250,000

60. What amount of interest income should be recognized for the current year?
a. 594,000 b. 522,000 c. 630,000 d. 450,000

BONUS: Politely ask for this bonus point. Must be genuine.

--End of Examination--

Intermediate Accounting 2 Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

AEC 14: Intermediate Accounting 2
FINAL EXAMINATION
1ST Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Liabilities	0.35	3%	2	2		34				2
Premium Liability	1.65	1%	1		31					1
Warranty Liability	1	3%	2	3		32				2
Provisions, Contingent Liabilities and Contingent Assets	1	4%	3	1, 6	33					3
Bonds Payable	2	4%	3	4		35	36			3
Effective Interest Method	2	4%	3	7, 8			37			3
Compound Financial Instrument	6	1%	1		38					1
Notes Payable	2	3%	2		40		39			2
Debt Restructure	3	3%	2		41, 42					2
Leases	10	6%	4	5, 9, 10	43					4
Accounting for Income Tax	4	3%	2			44	45			2
Employee Benefits	8	9%	6		46	47, 48, 49, 51	50			6
Shareholders' Equity	4	33%	23	11, 13, 15, 16, 17, 20, 58, 59, 60, 61, 63	12, 14, 18, 19, 52, 53, 54, 55	56, 57	62, 64			23
Share-based Payments	4	23%	16	21, 22, 24, 28, 29, 66	23, 25, 26, 27, 30, 65	67, 68, 69	70			16
TOTAL	**49**	**100%**	**70**							**70**

*Rounded off

Prepared by:

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Faculty

Noted by:

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Department Chairperson, Accountancy

USM-EDU-F25-Rev.1.2021.06.10

NAME: _____ CLASS & SECTION: _____

UNIVERSITY OF SOUTHERN MINDANAO
College of Business, Development Economics and Management
INTERMEDIATE ACCOUNTING 2
FINAL – EXAM

Part I. Theories
Instruction: Encircle the letter of the BEST answer.

1. Which is the correct definition of a provision?
   a. A possible obligation arising from past events
   b. A liability of uncertain timing or uncertain amount
   c. A liability which cannot be easily measured
   d. An obligation to transfer funds to an entity
2. A legal obligation is an obligation that is derived from all of the following, except:
   a. Legislation
   b. A contract
   c. Other operation of law
   d. An established pattern of past practice
3. An entity sells machines that include a three-year warranty. Service calls under the warranty are performed by an independent mechanic under a contract with the entity. Warranty costs are expected to be incurred for each machine sold. The warranty costs should be recognized
   a. Evenly over the life of the warranty
   b. When the machines are sold
   c. When the service calls are performed
   d. When payments are made to the mechanic
4. The proceeds from the sale of a bond will be equal to
   a. The face amount of the bond.
   b. The present value of the face amount of the bond plus the present value of the interest payments to be made during the life of the bond.
   c. The face amount of the bond plus the present value of the interest payments.
   d. The sum of the face amount of the bond and the periodic interest payments.
5. If the residual value of an underlying asset is greater than the amount guaranteed by the lessee
   a. The lessor pays the lessee for the difference
   b. The lessee recognizes a gain at the end of the lease term
   c. The lessee has no obligation related to the residual value
   d. The lessee pays the lessor for the difference
6. General contingencies or unspecified risks should
   a. Be accrued in the financial statements and disclosed in the notes
   b. Not be accrued in the financial statements and need not be disclosed in the notes.
   c. Not be accrued in the financial statement but should be disclosed in the notes.
   d. Be accrued in the financial statements but need not be disclosed in the notes.
7. Under the effective interest amortization, the periodic interest expense is equal to
   a. The stated rate of interest multiplied by the face amount of the bonds.
   b. The market rate of interest multiplied by the face amount of the bonds.
   c. The stated rate multiplied by the beginning carrying amount of bonds payable.
   d. The market rate multiplied by the beginning carrying amount of bonds payable.
8. What is the impact of amortization of the bond premium each period?
   a. Interest expense being greater than the amount of cash paid for interest
   b. Cash paid for interest being greater than interest expense
   c. Interest expense and cash paid are equal using straight line
   d. Interest expense and cash paid are equal using effective interest.
9. Which statement is true about low value lease?
   a. The value of an underlying asset is based on the value of the asset when new regardless of the age of the asset.
   b. The term of a low value lease may be more than twelve months.
   c. An underlying asset does not qualify as low value lease if the nature of the asset is such that the asset is typically not of low value when new.
   d. All of these statements are true about low value lease

10. Which is a correct statement of one of the lease capitalization criteria on the part of lessor?
    a. The lease transfers ownership of the property to the lessor.
    b. The lease contains a purchase option.
    c. The lease term is equal to or more than 75% of the economic life of the leased property.
    d. The lease payments excluding executory costs equal or exceed 90% of the fair value of the leased property
11. The two primary account classifications within shareholders' equity are
    a. Preference shares and retained earnings
    b. Ordinary shares and retained earnings
    c. Contributed capital and retained earnings
    d. Preference shares and ordinary shares
12. Contributed capital does not include
    a. Share premium
    b. Preference share capital
    c. Ordinary share capital
    d. Treasury shares
13. Which is not a basic right of a shareholder?
    a. The right to participate in earnings.
    b. The right to vote in the election of directors and in the determination of policies.
    c. The right to share in the net assets of the corporation upon liquidation
    d. The right to inspect the accounting records of the corporation.
14. The preemptive right of an ordinary shareholder is the right to
    a. Share proportionately in corporate assets upon liquidation.
    b. Share proportionately in any new issue of shares of the same class.
    c. Receive cash dividends before they are distributed to preference shareholders
    d. Exclude preference shareholders from voting rights.
15. Authorized shares refer to the total number of shares
    a. That can be issued
    b. Issued
    c. issued and outstanding
    d. Held in treasury
16. Shares that have a fixed per-share amount printed on each share certificate are called
    a. Stated value shares
    b. Fixed value shares
    c. Uniform value shares
    d. Par value shares
17. The par value of a share represents the
    a. Liquidation value of the share
    b. Book value of the share
    c. Legal nominal value assigned to the share
    d. Amount received by the corporation' when the share is originally issued
18. When collectibility is reasonably assured, the excess of the subscription price over the stated value of the no par share capital subscribed should be recorded as
    a. No par share capital
    b. Share premium when the subscription is recorded
    c. Share premium when the subscription is collected.
    d. Share premium when the shares are issued.
19. If shares are issued to extinguish a financial liability, what is the initial measurement of the shares issued?
    a. Par value of the shares
    b. Fair value of the shares
    c. Fair value of liability extinguished
    d. Book value of the shares
20. Treasury shares are.
    a. Shares held as an investment by the treasurer of the corporation.
    b. Shares held as an investment of the corporation.
    c. Issued and outstanding shares.
    d. Issued but not outstanding shares.
21. Share options are what type of share-based payment transaction?
    a. Asset-settled share-based payment transaction
    b. Equity-settled share-based payment transaction
    c. Cash-settled share-based payment transaction
    d. Liability-settled share-based payment transaction
22. Compensation expense resulting from a share option plan is generally
    a. Recognized in the period of exercise.

    b. Recognized in the period of the grant.
    c. Allocated to the periods benefited by the employee's required service:
    d. Allocated over the periods of the employee's service life until retirement.
23. In what circumstances is compensation expense immediately recognized under a share option plan
    a. In all circumstances
    b. When the options are exercisable within two years
    c. When the options are immediately exercisable
    d. In no circumstances.
24. The total compensation in a share option plan is normally measured at
    a. Fair value of share options on the date of grant
    b. Fair value of share options on the date of exercise
    c. Intrinsic value of share options on the date of grant
    d. Intrinsic value of share options on the date of exercise
25. The most important objective of share options is
    a. Measuring the compensation expense
    b. Measuring fair value
    c. Disclosing increases or decreases in the share options
    d. Recognition of services rendered.
26. Which technique, should not be used as a measure of fair value of share options in the first instance?
    a. Black-Sholes model
    b. Binomial model
    c. Monte-Carlo model
    d. Intrinsic value
27. When share options expired and were not exercised, the entity should
    a. Adjust retained earnings for compensation recognized during the vesting period
    b. Restate the financial statements for the compensation recognized during the vesting period
    c. Record the full amount of compensation expense in the current year
    d. Not adjust nor reverse the compensation expense recognized during the vesting period
28. Share appreciation rights are what type of share-based payment transaction?
    a. Asset-settled share-based payment transaction
    b. Liability-settled share-based payment transaction
    c. Cash-settled share-based payment transaction
    d. Equity-settled share-based payment transaction
29. For share appreciation rights, the measurement date for computing compensation is the
    a. Date the rights mature
    b. Date the share reaches a predetermined amount
    c. Date of grant
    d. Date of exercise or settlement
30. Which statement is true regarding share appreciation right?
    a. Any change in estimated total compensation is recorded as a prior period error
    b. The total amount of compensation is not known until the date the share appreciation right is exercised
    c. The lability is adjusted only to reflect each additional year of service
    d. The share appreciation right is not recognized

Part II. Problem Solving
Instruction: Encircle the letter of the BEST answer.

During the current year, an entity sold 500,000 boxes of cake mix under a new sales promotional program. Each box contained one coupon which entitles the customer to a baking pan upon remittance of ₱40. The entity paid ₱50 per pan and ₱5 for handling and shipping and estimated that 80% of the coupons would be redeemed, even though only 300,000 coupons had been processed during the year.

31. What amount should be reported as premium expense for the current year?
a. 6,000,000 b. 7,500,000 c. 4,500,000 d. 2,000,000

An entity started business in 2023 and sold printers with a three-year warranty. The entity estimated its warranty cost as a percentage of peso sales. It is estimated that 3% will be repaired during the first year of warranty, 5% will be repaired during the second year of warranty and 10% will be in the third year.
In 2023 and 2024, the entity was able to sell 7,500 and 10,000 units, respectively at a selling price of ₱4,000 per unit. The entity also incurred actual repair cost of ₱800,000 and ₱2,400,000 in 2023 and 2024, respectively. Sales and repairs occur evenly throughout the period.

32. What amount should be reported as adjusted warranty liability on December 31, 2024?
a. 9,675,000 b. 9,600,000 c. 9,300,000 d. 8,100,000

On January 15, 2023, an explosion occurred at an entity plant causing extensive property damage to area buildings. By March 1, 2024, no claims had been asserted against the entity but management and counsel concluded that it is likely that claims will be asserted and that it is probable that the entity will be responsible for damages. Management believed that ₱4,000,000 would be a reasonable estimate of the liability. The entity had a ₱5,000,000 comprehensive public liability policy with a ₱500,000 deductible clause. The financial statements for 2023 were issued on March 31, 2024.

33. What amount of loss from lawsuit should be reported in 2023?
a. 4,000,000 b. 1,000,000 c. 500,000 d. 0

An entity had an agreement to pay its sales manager a bonus of 10% of the income after bonus and after tax. The income for the year before bonus and before tax is ₱6,000,000. The income tax rate is 25% of income after bonus.

34. What is the bonus for the year?
a. 418,605 b. 500,000 c. 697,675 d. 558,140

An entity had the following long-term debt:

Bonds maturing in installments, secured by machinery	1,000,000
Bonds maturing on a single date, secured by realty	1,800,000
Collateral trusts bonds	2,000,000

35. What total amount should be reported as debenture bonds?
a. 2,000,000 b. 1,000,000 c. 1,800,000 d. 0

On July 1, 2023, an entity issued at 104, five thousand bonds of 10% ₱1, 000 face amount. The bonds were issued through an underwriter to whom the entity paid bond issue cost of ₱125,000.

36. On July 1, 2023, what amount should be reported as bond liability?
a. 4,875,000 b. 5,075,000 c. 5,200,000 d. 5,325,000

On January 1, 2023, an entity issued 5-year 5,000 bonds face amount of ₱1,000 per bond for ₱5,380,000 to yield 10%. Interest 12% is payable annually every December 31. On June 30, 2024, the entity retired 2,000 bonds at 96 plus accrued interest.

37. What is the carrying amount of the remaining bonds payable on December 31, 2024?
a. 3,280,000 b. 3,190,800 c. 3,149,880 d. 3,129,420

An entity issued ₱5,000,000 face amount 5-year bonds at 109. Each ₱1,000 bond was issued with 50 nondetachable share warrants. Each warrant entitled the bondholder to purchase one share of ₱5 par value for ₱25. Immediately after issuance, the market value of each warrant was ₱5. The interest rate is 11% payable annually every December 31. The prevailing market rate of interest for similar bonds without warrants is 12%. The PV of 1 at 12% for 5 periods is 0.57 and the PV of an ordinary annuity of 1 at 12% for 5 periods is 3.60.

38. What is the initial carrying amount of bonds payable?
a. 5,450,000 b. 4,830,000 c. 5,000,000 d. 4,380,000

On September 1, 2023, an entity borrowed on a ₱6,000,000 note payable from a bank. The note bears interest at 12% and is payable in four equal annual principal payments of ₱1,500,000. On this date, the bank's prime rate was 10%. The first annual payment for interest and principal was made on September 1, 2024.

39. On December 31, 2024, what amount should be reported as accrued interest payable?
a. 240,000 b. 180,000 c. 200,000 d. 150,000

On December 31, 2023, an entity purchased a machine in exchange for a noninterest bearing note requiring eight payments of ₱500,000. The first payment was made on December 31, 2023 and others are due annually on December 31. At date of issuance, the prevailing rate of interest for this type of note was 11%. The PV of an ordinary annuity of 1 at 11% for 8 periods is 5.146, and the PV of an annuity of 1 in advance at 11% for 8 periods is 5.712.

40. On December 31, 2023, what is the carrying amount of the note payable?
a. 2,856,000 b. 2,573,000 c. 2,356,000 d. 2,073,000

AA Company is indebted to BB under a ₱5,000,000, 12%, three-year note dated December 31, 2021. Because of AA's financial difficulties developing in 2023, AA Company owed accrued interest of ₱600,000 on the note on December 31, 2023. Under a debt restructuring on December 31, 2023, BB Company agreed to settle the note and accrued interest for a tract of land having a fair value of ₱4,000,000. The carrying amount of the land is ₱3,600,000.

41. Under US GAAP, what amount should be recorded as gain on restructuring?
a. 1,600,000 b. 1,000,000 c. 1,400,000 d. 0

42. Under US GAAP, what amount should be recorded as gain on transfer of land?
a. 1,000,000 b. 1,600,000 c. 400,000 d. 600,000

On December 31, 2023, an entity signed a 7-year finance lease for an airplane. The airplane's fair value was ₱8,415,000. The entity made the first annual lease payment of ₱1,530,000 on December 31, 2023. The entity's incremental borrowing rate was 12% and the interest rate implicit in the lease known to the lessee was 9%. The rounded present value factors for an annuity due are 5.50 at 9% for 7 years and 5.10 at 12% for 7 years.

43. What amount should be reported as lease liability on December 31, 2023?
a. 8,415,000 b. 7,803,000 c. 6,885,000 d. 6,273,000

At the end of first year of operations, an entity had taxable temporary differences totaling ₱1,500,000. The entity also had deductible temporary differences totaling ₱500,000. Pretax financial income for the current year was ₱8,500,000. The income tax rate is 25%.

44. What amount should be reported as net deferred tax expense or benefit for the current year?
a. 250,000 expense b. 250,000 benefit c. 375,000 expense d. 375,000 benefit

An entity was organized on January 1 2023. The entity had pretax accounting income of ₱6,000,000 and taxable income of ₱9,000,000 for the current year. The only temporary difference is accrued product warranty cost is expected to be paid in 2024. The enacted tax rates are 30% for 2023 and 25% for 2024 and thereafter.

45. What amount should be reported as total income tax expense for 2023?
a. 1,800,000 b. 2,700,000 c. 1,950,000 d. 3,450,000

An entity has established a defined benefit pension plan for the employees. Annual payments under the pension plan are equal to 3% of an employee's highest lifetime salary multiplied by the number of years with the entity. An employee's salary in 2023 was ₱500,000.
The employee is expected to retire in 10 years, and the salary increases are expected to average 4% per year during that period. On December 31, 2023, the employee has worked for 15 years. The future value of 1 at 4% for 10 periods is 1.48.

46. What is the annual pension payment that should be used in computing the projected benefit obligation on December 31, 2023?
a. 555,000 b. 375,000 c. 333,000 d. 225,000

At the beginning of current year, an entity had the following balances related to a defined benefit plan:

Fair value of plan assets	5,750,000
Projected benefit obligation	6,500,000

The actuary provided the following data for the current year:

Current service cost	600,000
Settlement discount rate	10%
Expected return on plan assets	8%
Actual return on plan assets	700,000
Contribution to the plan	900,000
Benefits paid to retirees	100,000

47. What is the employee benefit expense?
a. 675,000 b. 600,000 c. 700,000 d. 650,000

48. What is the remeasurement gain on plan assets?
a. 700,000 b. 125,000 c. 575,000 d. 240,000

49. What is the defined benefit cost?
a. 435,000 b. 900,000 c. 550,000 d. 675,000

50. What is the prepaid/accrued benefit cost on December 31?
a. 1,100,000 prepaid b. 1,100,000 accrued c. 400,000 prepaid d. 400,000 accrued

An entity has a profit sharing bonus plan which requires the entity to pay 12% of the income for the year to employees who will continue to serve throughout the following year. The entity reported income of ₱80,000,000 for 2023. The entity expects to save 5% of the maximum possible bonus payment through staff turnover. The bonus will be paid on December 31, 2024.

51. What is the bonus expense for 2023?
a. 9,600,000 b. 4,800,000 c. 9,120,000 d. 4,560,000

At the beginning of the current year, an entity issued 10,000 ordinary shares of ₱20 par value and 20,000 convertible preference shares of ₱20 par value for a total of ₱800,000.
At this date, the ordinary share was selling for ₱36 and the convertible preference share was selling for ₱27.

52. What amount of the proceeds should be allocated to the preference shares?
a. 600,000 b. 540,000 c. 480,000 d. 440,000

53. What amount of the proceeds should be allocated to the ordinary shares?
a. 360,000 b. 200,000 c. 320,000 d. 400,000

54. What is the share premium from the issuance of preference shares?
a. 180,000 b. 100,000 c. 80,000 d. 0

55. What is the share premium from the issuance of ordinary shares?
a. 200,000 b. 160,00 c. 120,000 d. 0

During the current year, an entity issued for ₱110 per share, 15,000 convertible preference shares of ₱100 par value. One preference share may be converted into three ordinary shares of ₱25 par value at the option of the preference shareholder.
At year-end, all of the preference shares were converted into ordinary shares. The market value of the ordinary share at the conversion date was ₱40.

56. What amount should be credited to ordinary share capital as a result of conversion?
a. 1,125,000 b. 1,500,000 c. 1,650,000 d. 1,800,000

57. What amount should be credited to share premium as a result of conversion?
a. 375,000 b. 525,000 c. 150,000 d. 0

An entity provided the following data at year-end:

Authorized share capital	8,000,000
Unissued share capital	2,000,000
Subscribed share capital	1,000,000
Subscription receivable	400,000
Share premium	500,000
Retained earnings unappropriated	600,000
Retained earnings appropriated	300,000
Revaluation surplus	200,000
Treasury shares, at cost	100,000

58. What total amount should be reported as shareholders' equity?
a. 8,100,000 b. 8,500,000 c. 7,900,000 d. 7,800,000

During the current year, an entity declared a 1 for 5 reverse share split, when the market value of share was ₱100. Prior to the split, the entity had 100,000 shares of ₱10 par value issued and outstanding.

59. After the split, what is the par value of the share?
a. 10 b. 20 c. 50 d. 2

The shareholders of Dorr Company approved a two-for-one share split and an increase in authorized shares from 100,000 shares with ₱20 par value to 200,000 shares with ₱10 par value.
The shareholders' equity accounts immediately before the split shares were share capital ₱1,000,000, share premium ₱150,000 and retained earnings ₱1,350,000.

60. What is the balance of the share premium after the share split is effected?
a. 1,150,000 b. 2,300,000 c. 150,000 d. 300,000

61. What is the balance of the retained earnings after the share split is effected?
a. 1,350,000 b. 2,700,000 c. 1,500,000 d. 2,350,000

An entity declared a 5% share dividend on 100,000 issued and outstanding shares of ₱20 par value which had a fair value of ₱50 per share before the share dividend was declared. This share dividend was distributed 60 days after the declaration date.

62. What is the increase in current liabilities as a result of the share dividend declaration?
a. 250,000 b. 100,000 c. 150,000 d. 0

On December 31, 2023, an entity declared a cash dividend of ₱800,000 to shareholders of record on January 15, 2024 and payable on February 15, 2024.
The entity reported the following information on December 31, 2013:

Accumulated depletion	200,000
Share capital	1,000,000
Share premium	300,000
Retained earnings	600,000

63. What amount should be recognized as liquidating dividend?
a. 600,000 b. 300,000 c. 200,000 d. 50,000

An entity provided the following shareholders' equity on December 31, 2023:

Share capital, ₱30 par, 100,000 shares authorized and outstanding	3,000,000
Share premium	1,500,000
Retained earnings (deficit)	(2,100,000)

On December 31, 2023, the entity put into effect a quasi-reorganization by reducing the par value of the share to ₱5 and eliminating the deficit against share premium.

64. Immediately after the quasi-reorganization, what amount should be reported as share premium?
a. 1,500,000 b. 1,900,000 c. 4,000,000 d. 600,000

An entity granted 10,000 share options to each of its five directors on January 1, 2023. The options vest on January 1, 2027. The fair value of each option on January 1, 2023 is ₱50 and it is anticipated that all of the share options will vest on January 1, 2027.

65. What amount should be reported as increase in expense and equity for the year ended December 31, 2023??
a. 750,000 b. 500,000 c. 625,000 d. 125,000

On June 30, 2023, an entity granted compensatory share options for 30,000 ₱20 par value ordinary shares to certain key employees. The market price of the share on that date was ₱36 and the option price was ₱30.
The Black-Scholes option pricing model measured the total compensation expense to be ₱5,400,000.
The options are exercisable beginning January 1, 2026, provided the key employees are still in entity's employ at the time the options are exercised. The options expire on June 30, 2027.
On January 15, 2027, when the market price of the share was ₱42, all 30,000 options were exercised.

66. What is the compensation expense for 2023?
a. 2,160,000 b. 1,080,000 c. 5,400,000 d. 2,700,000

67. What is the share premium upon exercise of share options in 2027?
a. 5,400,000 b. 5,700,000 c. 4,620,000 d. 300,000

An entity granted 30,000 share appreciation rights which entitled key employees to receive cash equal to the difference between ₱20 and the market price of the share on the date each right is exercised.
The service period is 2023 through 2025, and the rights are exercisable in 2026. The market price of the share was ₱25 and ₱28 on December 31, 2023 and 2024, respectively.

68. What amount should be reported as liability under the share appreciation rights on December 31, 2024?
a. 0 b. 130,000 c. 160,000 d. 240,000

69. What is the compensation expense for 2024?
a. 120,000 b. 150,000 c. 110,000 d. 10,000

On January 1, 2023, an entity granted the chief executive officer (CEO) 50,000 share appreciation rights for past services. The rights are exercisable immediately and expire on December 31, 2024.
On exercise, the CEO is entitled to receive cash for the excess of the share market price on exercise date over the market price on grant date. The CEO did not exercise any of the rights in 2023.
The market price of the share was ₱100 on January 1, 2023 and ₱115 on December 31, 2023. The CEO exercised the rights on December 31, 2024 when the market price was ₱110.

70. What amount should be recognized as gain on reversal of share appreciation rights in 2024?
a. 750,000 b. 500,000 c. 250,000 d. 0

"Wake up with determination and go to bed with satisfaction."

God bless you, future Accountant! ♥♥♥

Intermediate Accounting III Midterm Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

INTERMEDIATE ACCOUNTING III

MIDTERM EXAMINATION
(1ST Semester, 2024-205)

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Financial Statements	1.25		2	31,32						2
Statement of Financial Position	1.25		2	33,34						2
Notes to Financial Statements	1.25		2	35,36						2
Statement of Comprehensive Income	1.25		2	37,38						2
Statement of Changes in Equity	5		4	39			28,29,30			4
Noncurrent Asset Held for Sale and Discontinued Operation	2.5		3				9,10,11			3
Accounting Changes	2.5		2				12,13			2
Interim Financial Reporting	2		3				14,15,16			3
Operating Segment	2		3				17,18,19			3
Derivatives	1		1				20			1
Cash and Accrual Basis and Single Entry	10		8				1,2,3,4,5, 6,7,8			8
Error Correction	5		4				21,22,23,2 4			4
Statement of Cashflows	5		4	40			25,26,27,			4
TOTAL				10			30			

Prepared by:

JAY-R G. VILDAC
2024. 10. 07

Noted by:

SANDRA ANGELA A. BANGCAYA
Department Chairperson, Accountancy
2024. 10.28

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University of Southern Mindanao
College of Business, Development Economics and Management
Accountancy Department

ACC 313b – Intermediate Accounting III
MIDTERM EXAMINATION

Name				Score	
Professor		Yr/Prg/Sec		Date	

General Instructions
1. All your answers to the multiple-choice questions must be marked on the answer sheet provided, using ballpen only. After the examination, your answer sheet will be scanned and then graded by the computer. Unnecessary marks, including erasures, that will cause computer rejections while scanning your paper will not be taken into consideration.
2. Before you start the examination, check that your questionnaire is complete and free from printing defects. You cannot request another questionnaire once the examination has started.
3. You may write anything in this questionnaire.
4. No pencil or any erasable pen should be on your desk.
5. 5-point deduction for not following instructions.
6. If caught, both the copier and the source will receive a 5-point deduction.

Examination starts here.

Test I. Computation. (3 points each)

Use the following information for item numbers 1 – 5
Jayson Company reported the following account balances, including some additional information, as of December 31, 2023:

Cash on hand	P1,300,000
Cash in bank, net of P630,000 overdraft	1,590,000
Cash equivalents	2,200,000
Short-term investments	3,000,000
Accounts receivable, net of P800,000 credit balances	10,000,000
Allowance for bad debts	400,000
Accrued interest receivable	1,200,000
Advances to suppliers	1,800,000
Advances to employees	1,400,000
Finished goods inventory	5,000,000
Work-in-process inventory	2,300,000
Direct materials inventory	1,750,000
Factory supplies	950,000
Office supplies	1,650,000
Prepaid insurance	700,000
Prepaid advertising	450,000
Loans receivable – maturing in 2024	3,000,000
Loans receivable – maturing in 2026	1,000,000
Loans receivable - P1,500,000 maturing in 2024	4,000,000
Investments in equity securities – FVTPL, held for trading	1,000,000
Investments in debt securities – FVTPL, held for trading	558,000
Invest. in debt securities – FVTPL, failed SPPI test, will mature in 2027	1,158,000
Investments in equity securities – FVTOCI	900,000
Investments in debt securities – FVTOCI, maturing in 2024	2,400,000
Investments in debt securities – FVTOCI, maturing in 2027	1,700,000
Investments in debt securities – AC, maturing in 2025	1,600,000
Investments in debt securities – AC, maturing in 2024	2,500,000
Investments in debt securities – AC, half will mature in 2024	3,400,000
Land	4,600,000
Building	12,500,000
Accumulated depreciation – building	2,500,000
Equipment	6,050,000
Accumulated depreciation – equipment	1,850,000
Furniture and fixture	4,560,000
Accumulated depreciation – furniture and fixture	960,000
Right-of-use asset, net	2,400,000
Patent, net	2,325,000
Trademark, net	2,225,000
License, net	1,450,000
Deferred tax assets	2,500,000
Cash surrender value	200,000
Bond sinking fund, related to P7,500,000 bonds payable	1,800,000
Investment properties – land	2,550,000
Investment properties – building	3,950,000
Accounts payable, net of P400,000 debit balances	6,900,000
Unearned income	850,000
Accrued interest payable	1,250,000
Loans payable, half is due in 2024	4,000,000
Loans payable, due in 2025	9,500,000
Bonds payable due in 2024	1,000,000
Bonds payable due in 2030	7,500,000
Lease liability, the P500,000 portion is payable in 2024	3,000,000
Income tax liability	1,500,000
Deferred tax liabilities	4,500,000
Share capital	11,000,000
Share premium	4,000,000
Retained earnings	45,000,000

1. What is the total current assets?
a. P49,250,000 b. P48,650,000 c. P48,050,000 d. P50,750,000 e. Some other answer

2. What is the total noncurrent assets?
a. 54,050,000 b. P55,750,000 c. P52,550,000 d. P54,250,000 e. Some other answer

3. What is the total current liabilities?
a. P15,800,000 b. P14,600,000 c. P17,808,000 d. P18,300,000 e. Some other answer

4. What is the total noncurrent liabilities?
a. P18,500,000 b. P23,500,000 c. P16,000,000 d. P26,000,000 e. Some other answer

5. What is the company's working capital?
a.P34,050,000 b. P33,450,000 c. P30,250,000 d. P32,450,000 e. Some other answer

Use the following information for item numbers 5 – 7
HEAT Company reported the following amounts at the beginning of 2023:

Share Capital, P50 par value, 80,000 shares issued	P4,000,000
Share Premium	1,000,000
Retained Earnings	9,000,000
Treasury shares, 15,000 shares	900,000
Unrealized gain – debt securities at FVTOCI	1,200,000

Revaluation surplus	800,000
Remeasurement losses	500,000

During the year, the Company reported the following transactions:
a. On February 14, 2023, 20,000 shares were issued at P55/share.
b. On May 31, 2023,30,000 shares were issued in exchange for a building with fair value of P1,740,000.
c. On September 1, 2023, 12,000 shares were issued for a total of P756,000.
d. Net sales amounted to P5,000,000 while gross profit rate is 40% based on net sales. Total expenses amounted to P950,000.
e. A debt security at FVTOCI with related unrealized gain - OCI balance of P180,000 was sold at an immediate gain of P70,000.
f. There was a gain on sale of land amounting to P240,000, related revaluation surplus amounted to P400,000.
g. All the company's remaining land were revalued resulting to revaluation increase of P550,000.
h. Unrealized gain from debt securities at FVTOCI amounted to P360,000.
i. Remeasurement loss on pension plan amounted to 300,000.
j. 6,000 treasury shares were reissued for a total price of P390,000.

5. What is the amount of Profit/Loss to be recognized for the year ended 2023?
a. P1,290,000 b. P1,050,000 c. P1,540,000 d. P1,360,000 e. Some other answer

6. What is the amount of Other Comprehensive Income to be recognized for the year ended 2023?
a. P360,000 b. P550,000 c. P430,000 d. P910,000 e. Some other answer

7. What is the ending balance to be presented on the statement of changes in equity for the year 2023?
a. P19,016,000 b. P20,556,000 c. P20,126,000 d. P20,986,000 e. Some other answer

Use the following information for item numbers 8 – 11
AFFABLE Company purchased an equipment for P5,000,000 on January 1, 2023. The equipment had a useful life of 5 years with no residual value. On December 31, 2023, the entity classified the equipment as held for sale. On such date, the fair value less cost of disposal of the equipment was P3,500,000. On December 31, 2024, the entity believed that the criteria for classification as held for sale can no longer be met. Accordingly, the entity decided not to sell the equipment but to continue to use it. On December 31, 2024, the fair value less cost of disposal of the equipment was P2,700,000.

8. What is the carrying amount of the equipment on December 31, 2023 before classification as held for sale?
a. 5,000,000 b. 4,000,000 c. 3,500,000 d. 4,500,000 e. Some other answer

9. What amount of impairment loss should be recognized in 2023?
a. 1,500,000 b. 1,000,000 c. 500,000 d. -0- e. Some other answer

10. What amount should be included in profit or loss in 2024 as result of the reclassification of the equipment to as property, plant and equipment?
a. 800,000 gain b. 800,000 loss c. 300,000 gain d. 300,000 loss e. Some other answer

11. What is the adjusted carrying amount of the equipment on December 31, 2025?
a. 2,700,000 b. 1,800,000 c. 2,000,000 d. 3,000,000 e. Some other answer

Use the following information for item numbers 12 – 15
STEPAHNIE company started its operations on January 1, 2022. It provided the following information:

	Country A	Country B	Country C
2022			
Sales	P4,000,000	P5,000,000	P7,500,000
Cost of goods sold	2,250,000	2,000,000	2,500,000
Operating expenses	2,500,000	1,500,000	3,000,000
2023			
Sales	P3,000,000	P9,000,000	P11,000,000
Cost of goods sold	2,500,000	4,000,000	4,250,000
Operating expenses	1,000,000	2,000,000	3,500,000

During 2023, due to persistent losses in Country A, the company decided to cease its operations there and hold it for sale. Impairment loss from measuring the assets held for sale amounted to P400,000. The company is subject to 25% income tax.

12. What amount should be the reported as net of tax total comprehensive income for 2023?
a. P2,062,500 b. P4,012,500 c. P5,575,000 d. P5,350,500 e. Some other answer

13. What amount should be the reported as net of tax total comprehensive income for 2022?
a. P2,750,000 b. P2,350,000 c. P1,762,500 d. P2,062,500 e. Some other answer

14. What amount of net income from continuing operation shall be presented in the statement of comprehensive income for 2023?
a. P6,250,000 b. P3,500,000 c. P4,675,000 d. P2,625,000 e. Some other answer

15. What amount of income from discontinued operation shall be presented in the statement of comprehensive income for 2023?
a. P(750,000) b. P(900,000) c. P(675,000) d. P(1,237,500) e. Some other answer

Use the following information for item numbers 16 – 19

On January 1, 2019, an entity acquired an equipment for P1,400,000. Useful life and residual value were estimated to be 10 years and P200,000, respectively. On January1, 2023, an entity reassessed the manner of its estimating its depreciation. Under each of the following independent scenarios, determine what is being asked:

16. If the estimated remaining useful life is 8 years, what is the depreciable amount on January 1, 2023?
a. P920,000 b. P480,000 c. P720,000 d. P90,000 e. Some other answer

17. If the total useful life is revised to 9 years, determine the revised annual depreciation.
a. P144,000 b. P80,000 c. P920,000 d. P180,000 e. Some other answer

18. If the estimated remaining useful life is 4 years, determine the revised annual depreciation.
a. equipment is fully depreciated, thus no depreciation for 2023. B. P180,000 c. P144,000 d. P80,000 e. Some other answer

19. If the estimated total useful life is 14 years, what is the accumulated depreciation as of December 31, 2023?
a. P480,000 b. P660,000 c. P552,000 d. P600,000 e. Some other answer

Use the following information for item number 20 – 23
At the beginning of the year 2018, TROMBONE company acquired a factory for P12,000,000. This factory has an estimated useful life of 20 years. Fast forward to December 31, 2021, the company decided to hold the factory as held for sale when its fair value less costs to sell amounted to P9,700,000. Fair value less cost to sell on December 31, 2022 amounted to P9,000,000. After two years, on December 31, 2023, the company was not able to sell the factory building and decided to just use the factory in producing its products.

Assumption 1: The factory's fair value less costs to sell and value in use as of December 31, 2023 amounted to P8,100,000 and P7,800,000, respectively.

20. The measurement of the factory building after the reclassification entry on December 31, 2023 shall be
a. P7,800,000 b. P8,100,000 c. P8,400,000 d. P9,000,000

21. The gain or loss arising from the measurement of the factory building after the reclassification entry on December 31, 2023 shall be
a. P1,900,000 gain b. P900,000 loss c. P1,600,000 loss d. P1,200,000 loss

Assumption 2: The factory's fair value less costs to sell and value in use as of December 31, 2023 amounted to P8,600,000 and P8,900,000, respectively.

22. The measurement of the factory building after the reclassification entry on December 31, 2023 shall be
a. P8,400,000 b. P8,600,000 c. P8,900,000 d. P9,000,000 e. Some other answer

23. The gain or loss arising from the measurement of the factory building after the reclassification entry on December 31, 2023 shall be
a. P1,200,000 loss b. P1,300,000 loss c. P800,000 loss d. P600,000 loss

Use the following information for item number 24 – 25
FATUOUS SILLY Co. is preparing its interim financial statements for the period ended March 31, 20x1. The following relate to the transactions during the first quarter:
a. Total sales for the interim period was ₱2,000,000.
b. Cost of sales was ₱900,000.
c. FATUOUS is liable for 5% commission on its sales to its sales representatives and agents. No commission has yet been paid as of March 31, 20x1.
d. The allowance for doubtful accounts has a balance of ₱10,000 as of January 1,20x1. The required balance as of March 31, 20x1 is ₱30,000. There were no write-offs or recoveries during the period.
e. A building with historical cost of ₱2,400,000 is being depreciated over 5 years using straight line method.
f. FATUOUS prepaid a one-year insurance on its assets for ₱80,000 on January 1,20x1.
g. Property taxes for 20x1 amounting to ₱52,000 was paid in January.
h. Advertising costs of ₱100,000 were incurred in February on promotional activities held on Valentine's Day.
i. Year-end staff bonuses are expected to be around ₱184,000. Employees become entitled to the bonuses as they provide services to FATUOUS during the year.
j. FATUOUS's president is entitled to a 10% bonus on profit before bonus and taxes.
k. Loss on sale of a used equipment on March 2, 20x1 was ₱60,000.
l. FATUOUS incurred ₱24,000 on unanticipated repairs on its factory equipment on March 16, 20x1.
m. Due to the unexpected breakdown of the factory equipment on March 16, 20x1, FATUOUS has planned a major periodic overhaul of its other equipment to be held annually starting on December 31, 20x1. The cost of the major planned periodic overhaul is estimated at ₱96,000.
n. FATUOUS leases one of its retail stores. Monthly rentals are ₱10,000; however, the lease contracts provide for a contingent rent equal to 2% of the excess of sales over ₱1,800,000.

o. FATUOUS's budget for 20x1 included charitable contributions of ₱58,000 and employee training costs of ₱26,000. None of those costs were incurred as of March 31, 20x1.
p Other operating expenses incurred during the first quarter totaled ₱240,000.

24. What is the total operating expenses for the first quarter?
a. P777,000 b. P809,300 c. P816,000 d. P848,300 e. Some other answer

25. What is the profit for the first quarter?
a. P323,000 b. P423,000 c. P284,000 d. P290,700 e. Some other answer

Use the following information for item number 26 – 28
IGNOMINY DISGRACE Co.'s profits before tax for the 1st and 2nd quarters of 20x1were ₱1,760,000 and ₱1,840,000 before any necessary adjustments for the items listed below.
a. Total unfavorable manufacturing cost variances amounted to ₱48,000 in the 1stquarter. IGNOMINY expects that the manufacturing cost variances will be absorbed by year-end. There were no work-in-process inventories as of the end of the 1st and 2nd quarters.
b. Newspaper advertisement costs of ₱180,000 were paid on April 1, 20x1. The advertisement shall appear in the weekly newspaper publications over the remaining months of the year.
c. IGNOMINY's held for trading securities acquired on February 4, 20x1 for₱400,000 had a fair value of ₱200,000 on March 31, 20x1. IGNOMINY had expected that the fair value decline was only temporary. In fact, on June 30,20x1, the recovery exceeded the previous write-down in investment by ₱40,000.
d. Research and development costs incurred during the 1st and 2nd quarters totaled₱20,000 and ₱24,000, respectively. In July 20x1, technical feasibility has been established and, therefore, development costs of ₱10,000 and ₱14,000expensed in the 1st and 2nd quarters would have qualified for capitalization.
e. A land with a carrying amount of ₱400,000 had a recoverable amount of ₱384,000 on March 31, 20x1.

26. What is the adjusted profit before tax for the first quarter?
a. P1,456,000 b. P1,760,000 c. P1,476,000 d. P1,656,000 e. Some other answer

27. What is the adjusted profit before tax for the second quarter?
a. P2,026,000 b. P1,756,000 c. P1,876,000 d. P1,996,000 e. Some other answer (SOA)

28. What is the unrealized gain (loss) for the 1st and second quarter, respectively?
a. P(200,000) and P(240,000) b. P200,000 and P(240,000) c. P(200,000) and P240,000 d. P(200,000) and P0 e. SOA

Use the following information for item number 29 – 30
During the year 2021, LIBRA company's operating segments reported the following amounts of revenues

Segment 1	P900,000	Segment 3	P700,000	Segment 5	P2,400,000	Segment 7	P1,900,000
Segment 2	P700,000	Segment 4	P1,000,000	Segment 6	P1,700,000	Segment 8	P2,700,000

Both segments 1 and 2 sell the same products, but they are different in customer base, distribution method, and regulatory environment). Segments 3 and 4 have the same products sold, production process customer base, nature of regulatory environment and distribution method. There were no intersegment transactions during the year.

29. What is the total revenue of the reportable outright segments based on the initial quantitative threshold test for external revenue?
a. P10,400,000 b. P10,300,000 c. P8,700,000 d. P9,700,000 e. Some other answer

30. What is the percentage of the total reportable segment after meeting the overall size test?
a. 75.00% b. 72.50% c. 86.67% d. 85.83% e. Some other answer

Test II. True or False. Shade A if the statement is correct and shade D if otherwise. (1 point each)
1. Measuring assets and liabilities net of valuation allowances are not considered offsetting.
2. Financial statements shall be published at least annually. The annual period can cover calendar period, fiscal period or 52-week period.
3. Comparative information shall at least include those that pertain to previous annual period.
4. Consistency means retention of presentation and classification of items in the financial statements from one period to the next.
5. An entity shall clearly identify the financial statements and distinguish them from other information in the same published documents.
6. General-purpose financial reporting provides financial information about reporting entity that is useful to the users.
7. Other users of the financial statements include the employees, suppliers, customers, government, researchers, and other users.
8. Financial statements are the manifestation of general-purpose financial reporting.
9. Accrual basis of accounting recognizes income when earned and recognizes expense when incurred, regardless of the timing of the related cash flows.
10. Generally, assets and liabilities or income and expenses shall not be offset with each other.

Intermediate Accounting III Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

INTERMEDIATE ACCOUNTING III

FINAL EXAMINATION
(1ST Semester, 2024-205)

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Book Value per share	5	0.085	3			1,2,3				3
Basic Earnings per share	5	0.085	3			4,5,6				3
Hyperinflation	10	0.15	5			7,8,9,10,11				5
Current Cost Accounting	10	0.15	5			12,13,14,15,16				5
SME – Definition	10	0.15	5			17,18,19,20,21				5
SME – Financial Statements	8	0.114	4			22,23,24,25				4
SME – Assets	7	0.114	4			26,27,28,29				4
SME – Provisions and Contingencies	5	0.056	2			30,31				2
SME – Equity and Share-based Payment	5	0.056	2			32,33				2
PFRS for Small Entities	5	0.056	2			34,35				2
TOTAL	70	100	35			10				

Prepared by:

JAY-R G. VILDAC
2024. 12. 00

Noted by:

SANDRA ANGELA A. BANGCAYA
Department Chairperson, Accountancy 2024. 12.04

USM-EDU-F25-Rev.1.2021.06.10

University of Southern Mindanao
College of Business, Development Economics and Management
Accountancy Department

ACC 313b – Intermediate Accounting III
FINAL EXAMINATION

Name		Score	
Professor	Yr/Prg/Sec	Date	

General Instructions
1. All your answers to the multiple-choice questions must be marked on the answer sheet provided, using ballpen only. After the examination, your answer sheet will be scanned and then graded by the computer. Unnecessary marks, including erasures, that will cause computer rejections while scanning your paper will not be taken into consideration.
2. Before you start the examination, check that your questionnaire is complete and free from printing defects. You cannot request another questionnaire once the examination has started.
3. You may write anything in this questionnaire.
4. No pencil or any erasable pen should be on your desk.
5. 5-point deduction for not following instructions.
6. If caught, both the copier and the source will receive a 5-point deduction.
7. Shade letter E for some other answer or unanswerable problems.

Examination starts here.

Test I. Computation.

1. Zeta Company reported sales revenue of P4,600,000 in the income statement for the year ended December 31, 2023. The entity wrote off uncollectible accounts totaling P50,000 during the current year.

	2022	2023
Accounts receivables	1,000,000	1,300,000
Allowance for uncollectible accounts	60,000	110,000
Advances from customers	200,000	300,000

Under cash basis, what amount should be reported as sales for the current year?
a. P4,350,000 b. P4,400,000 c. P4,300,000 d. P4,250,000

2. Class company maintained accounting records on the cash basis but restated the financial statements to the accrual basis of accounting. The entity had P6,000,000 in cash basis income for 2023. The entity provided the following information at year-end:

	2023	2022
Accounts receivable	4,000,000	2,000,000
Accounts payable	1,500,000	3,000,000

Under the accrual basis, what amount of income should be reported in the 2023 income statement?
a. P2,500,000 b. P9,500,000 c. P5,500,000 d. P6,500,000

3.Tara company owns an office building and leases the offices under a variety of rental agreements involving rent paid in advance monthly or annually. Not all tenants make timely payments of their rent. During 2023, the entity received P8,000,000 cash from tenants. The statement of financial position contained the following data at year-end:

	2022	2023
Rental receivable	960,000	1,240,000
Unearned rental income	3,200,000	2,400,000
Uncollectible rent written off		500,000

Under accrual basis, what amount of rental revenue should be reported for the current year?
a. P9,580,000 b. P9,080,000 c. P8,580,000 d. P7,980,000

4. Aubrey company provided the following data:

	January 1	December 31
Share capital, P100 par value	5,000,000	5,750,000
Share premium	1,000,000	1,500,000
Retained earnings	3,500,000	4,500,000

During the current year, the entity declared and paid cash dividend of P1,000,000 and also declared and issue a share dividend. There were no other changes in shares issued and outstanding during the year. What was the net income for the current year?
a. P2,000,000 b. P1,000,000 c. P2,750,000 d. P3,250,000

5. Java company reported the following increases (decreases) in the accounts for the current year:

Cash	1,500,000
Accounts receivable, net of allowance amounting to P100,000	3,500,000
Inventory	3,900,000
Investment	(1,000,000)
Equipment	3,000,000
Accounts payable	(800,000)
Bonds payable	2,000,000

During the current year, the entity sold 100,000 shares with P20 par value for P30 per share. Dividend of P1,500,000 was declared, but not yet paid in cash. Equipment with fair value of P2,000,000 was donated by a shareholder during the current year. What amount should be reported as net income for the current year?
a. P6,300,000 b. P6,100,000 c. P6,000,000 d. P6,200,000

6. Easy Company reported that the beginning and ending total liabilities were P840,000 and P1,000,000, respectively, at year-end, owners' equity was P2,600,000 and the total assets were P200,000 larger than at the beginning of the year. During the current year, the new share capital issued exceeded dividends by P240,000. What was the net income or loss for the current year?
a. P200,000 loss b. P280,000 income c. P280,000 loss d. P40,000 loss

7. Henson Company had determined the 2022 and 2023 net income to be P4,000,000 and P5,000,000, respectively. However, the following situations happened:

- Merchandise inventory was incorrectly determined – P50,000 overstatement for 2022 and P150,000 overstatement for 2023.
- Revenue received in advance in 2022 of P300,000 was credited to a revenue account when received. Of the total, P50,000 was earned in 2022, P200,000 was earned in 2023 and the remainder will be earned in 2024.
- P400,000 gain on sale of equipment in 2023 was erroneously credited to retained earnings.

What amount should be reported as net income for 2023?
a. P5,400,000 b. P5,500,000 c. P5,450,000 d. P5,550,000

8. Glory Company reported the following errors in the financial statements:

	2022	2023
Ending Inventory	200,000 under	300,000 over
Depreciation	50,000 under	

An insurance premium of P150,000 was prepaid in 2022 to cover 2022, 2023, and 2024. The entire amount was charged to expense in 2022. On December 31, 2023, fully depreciated machinery was sold for P250,000 cash but the sale was not recorded until 2024. There were no other errors during 2022 and 2023 and no corrections have been made for any of the errors. What amount should be reported as net effect of the errors on 2023 net income?
a. P300,000 overstated b. P300,000 understated c. P200,000 understated d. P200,000 overstated

9. Using the information in item number 8, what amount should be reported as net effect of the errors on retained earnings on December 31, 2023?
a. P50,000 understated b. 300,000 overstated c. P250,000 overstated d. P50,000 overstated

10. Matthew company provided the following information for the current year:

Purchase of inventory	1,950,000
Purchase of land, with the vendor financing P1,000,000 for 2 years	3,500,000
Purchase of plant for cash	2,500,000
Sale of plant:	
Carrying amount	500,000
Cash proceeds	400,000
Buyback of ordinary shares	700,000

What amount of investing net cash outflows should be reported in the statement of cash flows for the current year?
a. P5,300,000 b. P5,600,000 c. P4,600,000 d. P6,550,000

11. Albay company provided the following information:

Accounts receivable, January 1, net of allowance of P100,000	1,200,000
Accounts receivable, December 31, net of allowance of P300,000	1,600,000
Sales for the current year – all on credit	8,000,000
Uncollectible accounts written off during the year	70,000
Recovery of accounts written off	20,000
Bad debt expense for the year	250,000
Cash expense for the year	5,250,000
Net income for the year	2,500,000

What amount should be reported as net cash provided by operating activities?
a. P2,150,000 b. P2,100,000 c. P2,350,000 d. P2,080,000

12. Retro Company reported the following shareholders' equity at year-end:

12% Preference share capital, 20,000 shares, P100 par	2,000,000
14% Preference share capital, 10,000 shares, P300 par	3,000,000
Ordinary share capital, 50,000 shares, P100 par	5,000,000
Retained earnings	2,240,000
Share premium	1,500,000

The 12% preference share is cumulative and fully participating. The 14% preference share is noncumulative and fully participating. Dividends have not been paid for 3 years. What amount should be reported as book value per ordinary share?
a. P112.00 b. P132.00 c. P126.00 d. P100.00

Use the following information for item numbers 13 – 15

As of January 1, 2023, BAGUIO Company maintains the following milking cows, for its production of powdered milk drink:

Age	Quantity	FVLCTS per cow, 1/1/23
One year	170	P2,500
Two years	130	3,200
Three years	110	4,100

On July 1, 2023, 18 2.5-year-old milking cows were acquired for P3,300 but with FVLCTS of P3,100. No other transactions have occurred during 2023. As of December 31, 2023, the following FVLCTS information is relevant:

Age	FVLCTS per cow, 12/31/23
One year	P2,300
Two years	3,000
Two and half years	3,300
Three years	3,900
Four years	4,800

13. What is the net gain(loss) to be reported as a result of physical change?
a. P345,800 b. P(128,400) c. P347,000 d. P583,200 e. Some other answer

14. What is the net gain(loss) to be reported as a result of price change?
a. P(45,800) b. P(78,400) c. P87,500 d. P43,000 e. Some other answer

15. What is the net amount to be recognized in 2023 profit or loss?
a. P300,000 b. P268,600 c. P267,400 d. P263,800 e. Some other answer

16. Precise Company had a net income of P15,000,000 for the current year. The following appropriations have not been considered in this amount:

Arrears of cumulative preference dividend for 2 years	4,000,000
Ordinary dividends	5,000,000
Preference share premium payable on redemption	1,000,000
Exceptional gain, net of tax	4,000,000

The entity had 3,000,000 ordinary shares P1 par outstanding at the beginning of the year. The following transactions occurred during the year:

Jan 1	Issued at P5 per share, P1 paid to date and entitled to participate in dividends to the next extent paid up	250,000
April 1	Full market price P3 per share issue	600,000
July 1	Purchase of own shares at P3.50 per share	400,000

What amount should be reported as basic earnings per share?
a. P3.94 b. P4.85 c. P4.57 d. P3.64

17. On January 1, 2023, Shane company had 100,000 ordinary shares outstanding. The following transactions occurred.

2023

Mar 1	Reacquired 3,000 shares accounted for as treasury
Sept. 1	Sold all treasury shares
Dec. 1	Sold 66,000 new shares for cash
Dec. 31	Reported net income of P2,600,000

2024

Jan. 15	Declared and issued a 25% share dividend
Dec. 31	Reported a net income of P4,000,000

What amount should be reported as basic EPS for 2023 for presentation in comparative financial statements on December 31, 2024?
a. P19.90 b. P15.88 c. P20.00 d. P20.80

18. Using the information in item number 17, what amount should be reported as basic EPS for 2024 for presentation in comparative financial statements on December 31, 2024?
a. P32.00 b. P24.10 c. P19.28 d. P30.77

19. Atlantic Company provided the following information at the beginning of the current year:

Ordinary share capital, P10 par value, 800,000 shares	8,000,000
12% convertible bonds issued at face amount, each P1,000 bond is convertible into 80 ordinary shares	5,000,000

May 1	Issued 60,000 ordinary shares for P30 per share
July 1	Purchased 100,000 treasury ordinary shares at P35 per share
Oct. 1	Converted P2,000,000 face amount of bonds
Dec. 31	Net income for the year was P9,500,000. The tax rate is 25%

What amount should be reported as diluted earnings per share?
a. P8.32 b. P8.44 c. P8.34 d. P8.49 e. DEPS is greater than BEPS

20. Dunn Company had 200,000 ordinary shares wit P20 par value and 20,000 shares of P100 par, 6% cumulative, convertible preference share capital outstanding for entire current year. Each preference share is convertible into 5 ordinary shares. The net income for the current year was P840,000. What amount should be reported as diluted earnings per share?

a. P2.40 b. P2.80 c. P3.60 d. P4.20 e. DEPS is greater than BEPS

21. On January 1, 2023, Altis company had 100,000 ordinary shares outstanding. In addition, on January 1, 2023, the entity had issued share options that allowed employees to purchase 40,000 ordinary shares. The option exercise price is P10 per share. The options were exercised on April 1, 2023. The average share price for the year was P20. The share price on the option exercise date on April 1, 2023 was P16. The entity had no other potentially dilutive securities. The net income for the year was P2,000,000. What amount should be reported as diluted earnings per share?
a. P14.95 b. P13.70 c. P14.28 d. P12.90 e. DEPS is greater than BEPS

22. Gretel Company had 400,000 ordinary shares, 50,000 convertible preference shares, ad P8,000,000 of 10% convertible bonds outstanding during the current year. Also outstanding at the beginning of current year were share options to buy 150,000 ordinary shares at P40 per share. The market price of ordinary share averaged P50 during the current year. The preference shares are convertible into 150,000 ordinary shares. Each P1,000 bond is convertible into 20 ordinary shares or a total of 160,000 ordinary shares. During the current year, the entity paid dividends of P30 per share on the ordinary shares and P15 per share on the preference shares. The net income for the current year was P6,000,000 and the income tax is P25%.
What is the total number of potentially dilutive ordinary shares?
a. 180,000 b. 340,000 c. 190,000 d. 310,000

23. Using the information in item number 22, what amount should be reported as diluted earnings per share?
a. P9.19 b. P8.18 c. P8.92 d. P9.91 e. DEPS is greater than BEPS

Use the following information for item numbers 24 and 26

CARMEL Company provided the following information with respect to a building:

a. The building was acquired January 1, 2018 at a cost of P7,800,000 with an estimated life of 40 years and residual value of P200,000. Annual depreciation was computed on the straight-line method.
b. The building was repaired on January 1, 2020 at a cost of P760,000.
c. On January 1, 2023, the management decided to change the total life of the building to 25 years.

24. What should be reported as depreciation of the building for 2020?
a. P195,000 b. P215,000 c. P210,000 d. P190,000 e. Some other answer

25. What should be reported as accumulated depreciation of the building for 2020?
a. P585,000 b. P605,000 c. P570,000 d. P590,000 e. Some other answer

26. What should be reported as accumulated depreciation of the building for 2023?
a. P1,216,000 b. P1,312,000 c. P1,320,000 d. P1,336,000 e. Some other answer

27. Colombia Company is producer of coffee. The entity is considering the valuation of its harvested coffee beans. Industry practice is to value the coffee beans at market value and uses as reference a local publication "Accounting for Successful Farms". On December 31, 2018, the entity has harvested coffee beans costing 3,000,000 and with fair value less cost to sell of 3,500,000 at the point of harvest. Because of long aging and maturation process after harvest, the harvested coffee beans were still on hand on December 31, 2018. On such date, the fair value less cost to sell is 3,900,000 and the net realizable value is 3,200,000. The coffee beans inventory shall be measured at
a. 3,000,000 b. 3,500,000 c. 3,200,000 d. 3,900,000

Use the following information for item number 28 – 29

AFFABLE Company purchased an equipment for P5,000,000 on January 1, 2023. The equipment had a useful life of 5 years with no residual value. On December 31, 2023, the entity classified the equipment as held for sale. On such date, the fair value less cost of disposal of the equipment was P3,500,000. On December 31, 2024, the entity believed that the criteria for classification as held for sale can no longer be met. Accordingly, the entity decided not to sell the equipment but to continue to use it. On December 31, 2024, the fair value less cost of disposal of the equipment was P2,700,000.

28. What amount of impairment loss should be recognized in 2023?
a. 1,500,000 b. 1,000,000 c. 500,000 d. -0- e. Some other answer

29. What amount should be included in profit or loss in 2024 as result of the reclassification of the equipment to as property, plant and equipment?
a. 800,000 gain b. 800,000 loss c. 300,000 gain d. 300,000 loss e. Some other answer

Use the following information for item number 30 – 31

Forester Company provided the following assets in a forest plantation and farm:

Freestanding trees	5,000,000
Land under trees	600,000
Roads in forest	300,000
Animals related to recreational activities	1,000,000
Bearer plants	1,500,000
Bearer animals	2,000,000

Agricultural produce growing on bearer plants	800,000
Agricultural produce harvested	1,200,000
Plant with dual use	1,400,000

30. What total amount should be reported as biological assets?
a. P7,800,000 b. P7,200,000 c. P8,400,000 d. P9,200,000

31. What total amount should be included in property, plant and equipment?
a. P4,600,000 b. P3,400,000 c. P1,800,000 d. P4,200,000

Use the following information for item numbers 32 – 35

ISAAC company reported the following amounts during the year:

	1st quarter	2nd quarter	3rd quarter	4th quarter
Sales	P8,600,000	P7,500,000	P9,000,000	P12,000,000
Operating expenses*	1,800,000	1,640,000	2,050,000	2,800,000

*excluding depreciation, insurance, advertising, repairs and other losses

The Company has consistently maintained gross profit rate based on sales of 40%. Additional information was also provided as follows:
a. Annual depreciation expense based on beginning PPE items amounted to P800,000. Additional PPE items were acquired on August 1, 2023. These items will contribute additional annual depreciation of P120,000.
b. Two-year insurance premiums of P180,000 were paid on March 1,2023.
c. Repair costs of P110,000 were incurred on April 1, 2023. These are expected benefit the rest of the year.
d. The cost of inventory exceeded its net realizable value by P360,000 as of June 30, 2023. By December 31, 2023, the cost of inventory is now lower than its net realizable value.
e. Advertising costs of P240,000 were incurred on September 1, 2023. These costs are expected to benefit the current and succeeding five interim periods.
f. An equipment was sold at a loss of P45,000 on February 1, 2023.
g. A land was sold at a gain of P420,000 on October 10, 2023.

32. What is the net income for the 1st quarter?
a. P1,587,500 b. P1,367,500 c. P 1,432,500 d. P1,387,500 e. Some other answer

33. What is the net income for the 2nd quarter?
a. P467,7000 b. P647,500 c. P667,500 d. P1,027,500 e. Some other answer

34. What is the net income for the 3rd quarter?
a. P1,067,500 b. 1,287,5000 c. P1,047,500 d. P1,037,500 e. Some other answer

35. What is the net income for the 4th quarter?
a. P2,107,500 b. P4,527,500 c. P1,747,500 d. P1,677,500 e. Some other answer

Strategic Cost Management Final Examination with TOS

UNIVERSITY OF SOUTHERN MINDANAO
Kabacan, Cotabato
Philippines

TABLE OF SPECIFICATIONS

STRATEGIC COST MANAGEMENT

FINAL EXAMINATION
2nd Semester, 2024-2025

Topic	No. of Hours	% of Items	No. of Items	Distribution of Items						Total
				Remembering	Understanding	Applying	Analyzing	Evaluating	Creating	
Decentralization: Responsibility Accounting, Performance Evaluation, and Transfer Pricing	6	32	24	1,3,6	2,4,5,19,20	36,37,38,39,40,41,42,43,44,45,46	16,17,18,33,34			24
Strategic Cost Management	6	22	16	8,9,68,69,70,71,72,73	7,10	55,56,57,66,67	21			16
Activity-Based Management	6	25	19		11,12,29,74,75,76,77,78	47,48,49,50,51	28,31,35,52,53,54			19
Strategic-Based Control Systems and the Balanced Scorecard	6	21	16	13,14,15,23	26,27	60,61,62,63,64,65	24,25,32,62			16
TOTAL	**36**	**100%**	**75**							**75**

*Total items do not coincide with no. of items because of the importance of the topics and complexity of the questions.

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UNIVERSITY OF SOUTHERN MINDANAO
AEC-09 STRATEGIC COST MANAGEMENT
FINAL EXAMINATION

GENERAL INSTRUCTIONS

- **Read the Instructions Carefully**: Before starting, thoroughly read the instructions provided on the question paper.
- **Manage Your Time:** Allocate your time wisely. For lengthy examinations, divide your time according to the marks allotted to each question. Keep track of time to ensure you can complete all questions.
- Use the answer sheet provided when answering. Shade the letter of your choice, using a **black ballpen** for shading.
- No CHEATING

Part I. TRUE OR FALSE. Read and follow instructions carefully.
Shade A if the statement is TRUE
Shade B if the statement is FALSE

1. Management Accounting is a system that measures the results of each responsibility center and compares those results with expected or budgeted outcomes.
2. Decentralization reduces the need for effective communication among an organization's departments.
3. The manager of an investment center is responsible for generating revenue as well as controlling expenses.
4. In computing a transfer price, the maximum price should be no higher than the highest market price at which the buying segment can obtain the good or service externally.
5. In computing a transfer price, the minimum price should be no lower than the incremental costs associated with the goods plus the opportunity cost of the facilities used.
6. Cost based transfer prices are most appropriate for low cost and low volume services.
7. Cost leadership is the difference between what a customer receives and what customer gives up.
8. To avoid an inherent risk means that the company ceases to perform the activity that gave rise to the risk.
9. The production viewpoint is concerned with the nature of the sales pattern over the life cycle of the product.
10. If the target cost is less than what is currently achievable, then management must find cost reductions that move the actual cost toward the target cost.
11. When demand exceeds supply by a large enough quantity, management can take action to reduce the quantity of the activity provided.
12. Non-value-added activities often are those that fail to produce a change in state or those that replicate work because it wasn't done correctly the first time.
13. Mandatory measures are required by regulators and thus, companies must collect such measures to comply with rules and regulations.
14. The customers perspective in the Balanced Scorecard is concerned with three major enabling factors: employee capabilities, information systems capabilities, and employee attitudes.
15. Once management assesses its top risks at inherent level, the next step in the enterprise risk management process is to decide how best to manage, or respond, to each top risk.

Part II. MULTIPLE CHOICE. Read each item carefully and choose the letter of the correct answer. Shade the letter of your choice in the answer sheet provided.

16. If a division is set up as an autonomous profit center, then goods should not be transferred
    A. in at a cost-based transfer price.
    B. out at a cost-based transfer price.
    C. in or out at cost-based transfer price.
    D. to other divisions in the same company.
17. Performance evaluation measures in an organization
    A. affect the motivation of subunit managers to transact with one another.
    B. always promote goal congruence.
    C. are less motivating to managers than overall organizational goals.
    D. must be the same for all managers to eliminate suboptimization.
18. To avoid waste and maximize efficiency when transferring products among divisions in a competitive economy, a large diversified corporation should base transfer prices on
    A. variable cost
    B. market price
    C. full cost
    D. production cost
19. With two autonomous division managers, the price of goods transferred between the divisions needs to be approved by
    A. corporate management.
    B. both divisional managers.
    C. both divisional managers and corporate management.
    D. corporate management and the manager of the buying division
20. The presence of idle capacity in the selling division may increase
    A. the incremental costs of production in the selling division.
    B. the market price for the good
    C. the price that a buying division is willing to pay on an internal transfer.
    D. a negotiated transfer price.
21. An organization that is using the product differentiation approach would:
    A. focus on tight cost control
    B. carefully cultivate their brands
    C. provide products that are similar to competitors
    D. offer products at a lower cost than competitors
22. Riter Corporation manufactures water toys. It plans to grow by producing high-quality water toys at a low cost that are delivered in a timely manner. There are a number of other manufacturers who produce similar water toys. Riter believes that continuously improving its manufacturing processes and having satisfied employees are critical to implementing its strategy.) Riter's strategy is:
    A. product differentiation
    B. downsizing
    C. reengineering
    D. cost leadership
23. The balanced scorecard measures an organization's performance from all of the following perspectives EXCEPT:
    A. financial
    B. government
    C. customer
    D. learning and growth
24. The purpose of the balanced scorecard is best described as helping an organization:
    A. develop customer relations
    B. mobilize employee skills for continuous improvements in processing capabilities, quality, and response times
    C. introduce innovative products and services desired by target customers
    D. translate an organization's mission and strategy into a set of performance measures that help to implement the strategy
25. The first step to successful balanced scorecard implementation is clarifying the:
    A. organization's vision and strategy
    B. elements that pertain to value-added aspects of the business
    C. owner's expectations about return on investment
    D. objectives of all four balanced scorecard measurement perspectives
26. The internal business processes perspective of the balanced scorecard comprises three subprocesses that address all of the following EXCEPT:
    A. innovative processes used to create new products, services, and processes
    B. motivating current employees
    C. providing service and support to the customer after the sale
    D. delivering existing products and services to best meet the needs of customers
27. Which of the following is NOT true of a good balanced scorecard?
    A. It tells the story of a company's strategy by articulating a sequence of cause-and-effect relationships.
    B. It helps to communicate corporate strategy to all members of the organization.
    C. It identifies all measures, whether significant or small, that help to implement strategy.
    D. It uses nonfinancial measures to serve as leading indicators of future financial performance.
28. Cost drivers are
    A. Activities that causes costs to increase as the activity increases
    B. Accounting techniques used to control costs.
    C. Accounting measurements used to evaluate whether performance is proceeding according to plan.
    D. A mechanical basis, such as machine hours, computer time, size of equipment, or square footage of factory, used to assign costs to activities.
29. Activity-based management (ABM)
    A. A costing system in which multiple overhead cost pools are allocated using bases that include one or more non-volume related factors.
    B. A base used to allocate the cost of a resource to the different activities using it.
    C. The use of information obtained from ABC to make improvements in the firm
    D. A base used to allocate the cost of an activity to products and customers
30. Activities, their drivers, and their costs may be classified as unit level, product level, batch level, and plant level. If activity-based costing information is prepared for internal purposes, which costs are most likely to be treated as period costs?
    A. Unit level.
    B. Product level.
    C. Batch level.
    D. Plant level
31. Johnson Superior Products Inc. produces hospital equipment and the setup requirements vary from product to product. Johnson produces its products based on customer orders and uses ABC costing. In one of its indirect cost pools, setup costs and distribution costs are pooled together. Costs in this pool are allocated using number of customer orders for the easiness of costing operations. Based on the information provided, which of the following arguments is valid?
    A. Johnson has clearly failed to identify as many direct costs as is economically feasible
    B. All costs in a homogeneous cost pool have the same or a similar cause-and-effect relationship with the single cost driver that is used as the cost-allocation base for Johnson.
    C. Johnson has unnecessarily wasted resources by classifying setup and distribution costs as they could have been considered as direct costs.
    D. Johnson has failed to use the correct cost driver as the cost-allocation base for setup costs.
32. Managers need to evaluate the success of a strategy by:
    A. evaluating budget-to-actual variances
    B. doing a cost-benefit analysis
    C. linking the sources of operating-income increases to the strategy
    D. evaluating the level of bonus compensation
33. Which of the following is more characteristic of a decentralized than a centralized business structure?
    A. The firm's environment is stable.
    B. There is little confidence in lower-level management to make decisions.
    C. The firm grows very quickly.
    D. The firm is relatively small
34. In an internal transfer, the selling division records the event by crediting
    A. accounts receivable and CGS.
    B. CGS and finished goods.
    C. finished goods and accounts receivable.
    D. finished goods and intracompany sales.
35. Multiple or departmental manufacturing overhead rates are considered preferable to a single or plant-wide overhead when
    A. Manufacturing is limited to a single product flowing through identical departments in a fixed sequence
    B. Various products are manufactured that do not pass through the same departments or use the same manufacturing techniques.
    C. Individual cost drivers cannot accurately be determined with respect to cause and effect relationships.
    D. The single or plant-wide rate is related to several identified cost drivers

Questions 36-38 are based on the following information:

The following selected data pertain to the Argent Division for last year:

Sales	$1,000,000
Variable costs	624,000
Traceable fixed costs	100,000
Average invested capital	1,500,000
Imputed interest rate	15%

36. How much is the net income?
    A. $276,000
    B. $51,000
    C. $376,000
    D. $85,000
37. How much is the residual income?
    A. $176,000
    B. $51,000
    C. $64,000
    D. $524,000
38. What is the return on investment?
    A. 27.60%
    B. 18.40%
    C. 25.06%
    D. 15.20%
39. Fermat Inc., has acquired two new companies, one in consumer products and the other in financial services. Fermata's top management believes that the executives of the two newly acquired companies can be most quickly assimilated into the parent company if they own shares of Fermat stock. Accordingly, on April 1, Fermat approved a stock option plan whereby each of the top four executives of the new companies could purchase up to 20,000 shares of Fermat stock at $15 per share. The option will expire in five years.

    If Fermat stock rises to $26.50 per share by December 1, what is the value of the option to each executive?
    A. $530,000
    B. $230,000
    C. $300,000
    D. $760,000

Questions 40-42 are based on the following information:
Forchen , Inc., provided the following information for two of its divisions for last year:

	Small Appliances Division	Cleaning Products Division
Sales	$34,670,000	$31,320,000
Operating income	2,773,600	1,252,800
Operating assets, January 1	6,394,000	5,600,000
Operating assets, December 31	7,474,000	6,000,000

Forchen Inc., requires an 8 percent minimum rate of return.

40. How much is the average operating assets of Cleaning Products division?
    A. $6,934,000
    B. $5,800,000
    C. $3,420,000
    D. $5,600,000
41. What is the return on investment of the Small Appliances Division?
    A. 21.60%
    B. 32.10%
    C. 40%
    D. 30%
42. What if the minimum required rate of return was 9 percent?
    How much is the residual income of both divisions?

	Small Appliance Division	Cleaning Products Division
A.	$2,218,880	$788,800
B.	$788,800	$2,218,880
C.	$730,800	$2,149,540
D.	$2,149,540	$730,800

Questions 43-46 are based on the following information:

Computer Solutions Corporation manufactures and sells various high-tech office automation products. Two divisions of Office Products Inc. are the Computer Chip Division and the Computer Division. The Computer Chip Division manufactures one product, a "super chip" that can be used by both the Computer Division and other external customers. The following information is available on this month's operations in the Computer Chip Division:

Selling price per chip	$50
Variable costs per chip	$20
Fixed production costs	$60,000
Fixed SG&A costs	$90,000
Monthly capacity	10,000 chips
External sales	6,000 chips
Internal sales	0 chips

Presently, the Computer Division purchases no chips from the Computer Chips Division, but instead pays $45 to an external supplier for the 4,000 chips it needs its month

43. Refer to Computer Solutions corporation. Assume that next month's costs and levels of operations in the Computer and Computer Chip Divisions are similar to this month. What is the minimum and maximum of the transfer price range for possible transfer of the super chip from one division to the other?

	Minimum	Maximum
A.	$50	$35
B.	$45	$20
C.	$20	$45
D	$35	$50

44. Refer to Computer Solutions Corporation. Two possible transfer prices (for 4,000 units) are under consideration by the two divisions: $35 and $40. Corporate profits would be___if $35 is selected as the transfer price rather than $40.
    A. $20,000 larger
    B. $40,000 larger
    C. $20,000 smaller
    D. the same
45. Refer to Computer Solutions Corporation. If a transfer between two divisions is arranged next period at a price (on 4,000 units of super chips) of $40, total profits in the Computer Chip division will
    A. rise by $20,000 compared to the prior period
    B. drop by $40,000 compared to prior period
    C. drop by $20,000 compared to the prior period
    D. rise by $80,000 compared to the prior period

46. Refer to Computer Solutions Corporation. Assume, for this question only, that the Computer Chip Division is selling all that it can produce to external buyers for $50 per unit. How would overall corporate profits be affected if it sells 4,000 units to the Computer Division at $45? (Assume that the Computer Division can purchase the super chip from an outside supplier for $45).
A. no effect
B. $20,000 increase
C. $20,000 decrease
D. $90,000 increase

Questions 47-48 are based on the following:

Katherine Inc. of Cebu Ltd. has decided to institute a pilot activity-based costing project in its five-person purchasing department. Annual department costs are P473,500. Because finding the best supplier takes the majority of effort in the department, most of the costs are allocated to this area.

Activity	Allocation Measure	Number of People	Total cost
Find best suppliers	Number of telephone calls	3	P300,000
Issue purchase orders	Number of purchase orders	1	100,000
Review receiving reports	Number of receiving reports	1	73,500

During the year, the purchasing department made 150,000 telephone calls, issued 10,000 purchase orders, and reviewed 7,000 receiving reports. Many purchase orders are received in a single shipment.
One product manufactured by Cebu Ltd. Required the following purchasing department activities:125 telephone calls, 60 purchase orders, and 15 receipts.

47. What amount of purchasing department cost should be assigned to the product?
A. P1,007. 50
B. P4,500.00
C. P921.48
D. P327.55

48. What is the purchasing department cost per unit would be if 200 units of the product are manufactured during the year?
A. P2.00
B. P5.04
C. P10.00
D. P10.50

Questions 49-51 are based on the following:
Heirloom Company. manufactures hand-made pine storage boxes for a variety of clients. As production manager, you have developed the following value chart:

Operation	Average Number of Days
Receiving materials	1
Storing materials	2
Handling materials	3
Cutting/measuring materials	6
Assembling materials	4
Building boxes	7
Attaching hinges	2
Inspection	1

49. What is the total time of value-added activities?
A. 19 days
B. 12 days
C. 17 days
D. 13 days

50. What is the total time of non-value-added activities?
A. 7 days
B. 3 days
C. 10 days
D. 8 days

51. What is the manufacturing cycle efficiency?
A. 73.10%
B. 84.61%
C. 26.92%
D. 57.89%

52. Use of activity-based costing and activity-based management requires
A. the creation of an environment for change in an organization.
B. elimination of all non-value-added activities in an organization.
C. that company processes be automated and the use of direct labor be minimal.
D. each process be fully mapped and all activities be identified as value-added or non-value-added.

53. Which of the following is most likely to make the implementation of ABC/ABM slow and difficult?
A. The inability of all employees to understand the computations involved in ABC.
B. A lack of involvement by or support from upper management.
C. The need for dual costing systems.
D. An inability to eliminate all business-value-added activities.

54. A key concept underlying cost driver analysis is that
A. all cost drivers identified should be used for cost accumulation.
B. the cost of measuring a driver does not exceed the benefits of using it.
C. only costs occurring at the unit-level should be assigned to products or services.
D. organizational/facility costs are non-value-added and should never be assigned to products or services.

Questions 55-57 are based on the following:
Avenger company is a car brake repair and replacement company operating in the after-sales market. Avenger's purchasing manager uses two suppliers (Stridulo and Fallimento) for the source of its passenger car brakes.

I. **Activity Costs**

Activity	
Adverse Buying*	$800,000
Supplier returns**	100,000

Extra cost of purchasing from local car dealer because of insufficient delivery of supplier
** Brakes returned because they were not ordered or because they were defective.*

II. **Supplier Data**

	Stridulo Brakes		Fallimento Brakes	
	Discs	Pads	Discs	Pads
Unit purchase price	$53.75	$148.75	$46.50	$146.50
Units purchased	10,000	10,000	15,000	15,000
Insufficient units	2,000	2,000	6,000	6,000
Returned units	500	500	1,500	1,500

55. What are the activity rates for assigning costs to suppliers?

	Adverse Buying rate	Supplier return rate
A.	$75	$25
B.	$50	$65
C.	$50	$25
D.	$25	$75

56. What is the total unit purchasing cost of Disc for Stridulo?
A. $75
B. $125
C. $95
D. $65

57. What is the total unit purchasing cost of Pads for Fallimento?
A. $189
B. $169
C. $199
D. $149

Questions 58 and 59 are based on the following:
Uchdorf Manufacturing just completed a study of its purchasing activity with the objective of improving its efficiency. The driver for the activity is number of purchase orders. The following data pertain to the activity for the most recent year:
Activity supply: five purchasing agents capable of processing 2,400 orders per year (12,000 orders)
Purchasing agent cost (salary): $45, 600 per year
Actual usage: 10,600 orders per year
Value-added quantity : 7,000 orders per year

58. What is the volume variance?
A. $75,000 F
B. $95,000 U
C. $95,000 F
D. $75,000 U

59. What is the unused capacity variance?
A. 23,400 F
B. 32,600 F
C. 26,600 F
D. 38,200 F
E.

Questions 60 & 61 are based on the following:
Fontane Inc., has provided the following information for one of its products for each hour of production:
Actual Velocity : 400 units (per hour)
Move time: : 25 minutes
Inspection time : 5 minutes
Rework time : 10 minutes

60. What is the Manufacturing cycle efficiency?
A. 0.55
B. 0.33
C. 0.77
D. 0.88

61. What is the theoretical cycle time?
A. 0.05 minutes
B. 1.02 minutes
C. 0.75 minutes
D. 1.50 minutes

62. The balanced scorecard gets its name from
A. an attempt to provide short-run financial results with long-run financial strategies.
B. an attempt to balance product quality and cost reduction
C. an attempt to match a company's own capabilities with the opportunities in the marketplace to accomplish an overal objective.
D. an attempt to balance financial and nonfinancial performance measures to evaluate both short-run and long-run performance in a single report.

Questions 62 -65 are based on the following:
Computador has a manufacturing plant in Des Moines that has the theoretical capability to produce 243,000 laptops per quarter but currently produces 91,125 units. The conversion cost per quarter is $7,290,000. There are 60,750 production hours available within the plant per quarter. In addition to the processing minutes per unit used, the production of the laptops uses 10 minutes of move time, 20 minutes of wait time, and 5 minutes of rework time. (All work is done by cell workers.)

63. What are the theoretical and actual velocities per hour?

	Theoretical	Actual
A.	6 laptops per hour	2.5 laptops per hour
B.	5 laptops per hour	2 laptops per hour
C.	2 laptops per hour	0.5 laptops per hour.
D.	4 laptops per hour	1.5 laptops per hour

64. How much are the ideal and actual amounts of conversion cost per laptop?

	Ideal (theoretical)	Actual
A.	$20	$60
B.	$40	$90
C.	$30	$80
D.	$50	$80

65. What is the Manufacturing Cycle Efficiency (MCE)?
A. 0.10
B. 0.20
C. 0.30
D. 0.40

Woodruff Company is currently producing a snowmobile that uses five specialized parts. Engineering has proposed replacing these specialized parts with commodity parts, which will cost less and can be purchased in larger order quantities. Current activity capacity and demand (with specialized parts required) and expected activity demand (with only commodity parts required) are provided.

Activities	Activity Driver	Activity Capacity	Current Activity Demand	Expected Activity Demand
Material usage	Number of parts	192,000	192,000	192,000
Installing parts	Direct labor hours	90,000	90,000	72,000
Purchasing parts	Number of orders	20,000	17,100	10,500

Additionally, the following activity cost data are provided:
Material usage: $20 per specialized part used; $16 per commodity part; no fixed activity cost.
Installing parts: $14 per direct labor hour; no fixed activity cost.
Purchasing parts: Four salaried clerks, each earning a $45,000 annual salary; each clerk is capable of processing 5,000 purchase orders. Variable activity costs: $0.80 per purchase order processed for forms, postage, etc.

66. How much is the cost reduction produced by using commodity parts instead of specialized parts?
A. $1,070,280
B. $1,180,200
C. $1,280,760
D. $1,120,240

67. Suppose that 50,000 units are being produced and sold for $8,800 per unit and that the price per unit will be reduced by the per-unit savings. What is the new price for the configured product?
A. $7,882.56
B. $ 6,724.64
C. $8,778.59
D. $7,824.314

Part III. Classify the following cost drivers.
Shade **A** if it is STRUCTURAL, shade **B** if it is EXECUTIONAL and shade **C** if it is OPERATIONAL.
68. Number of planning meetings
69. Scale
70. Type and efficiency of layout
71. Number of purchase orders
72. Engineering hours
73. Employee experience

Part IV. CLASSIFICATION OF VALUE ADDED and NON-VALUE ADDED activities.
Shade **A** if it is a VALUE ADDED ACTIVITY, shade **B** if it is a NON-VALUE ADDED ACTIVITY.
74. Writing code that adds functionality to an application
75. Waiting for information or resources.
76. Excessive paperwork.
77. Resolving a customer's issue or providing helpful information.
78. Creating a product design that meets customer needs.
79. The act of preparing food for a customer.
80. Inspecting products for defects (while necessary, it doesn't add value, it just prevents loss).

Part V. BALANCE SCORECARD CLASSIFICATION.
Classify the objecteives by perspective. Shade **A** if it is under ***FINANCIA***L, shade **B** for **CUSTOMER**, shade **C** for **PROCESS** and shade **D** for **LEARNING AND GROWTH.**
81. Increase access to new information
82. Increase customer acquisition
83. Decrease operating expenses
84. Decrease development cycle time
85. Increase suggestions implemented

-----end-----
God bless!

Please click the link to see examples of examinations with TOS.
https://drive.google.com/file/d/1AxNTL711XfBjN_-ozUfVWaNeKhHYw0Vj/view?usp=sharing