ACCOUNTING FOR MANAGERIAL DECISIONS

1. __________ is not suitable where selling price is determined on the basis of cost-plus method.
    a. Absorption costing
    b. Marginal costing
    c. Both a and b
    d. None of the above
2. The problems associated with marginal costing are
    a. Difficulties in divisions of costs
    b. Problem of valuation of stocks
    c. Ignores time elements
    d. All of the above
3. Managers utilizes marginal costing for
    a. Make or buy decision
    b. Utilization of additional capacity
    c. Determination of dumping price
    d. All of the above
4. Which of the following are advantages of marginal costing?
    a. Makes the process of cost accounting more simple
    b. Helps in proper valuation of closing stock
    c. Useful for standard and budgetary control
    d. All of the above
5. Under absorption costing, managerial decisions are based on
    a. Profit
    b. Contribution
    c. Profit volume ratio
    d. None of the above

6. Which of the following statements are true about absorption & marginal costing?
    a. In absorption costing, cost is divided into three major parts while in marginal costing, cost is divided into two main parts
    b. In absorption costing period is important and in marginal costing product is important
    c. Both a and b
    d. None of the above
7. Given production is 1,00,000 units, fixed costs is Rs 2,00,000 Selling price is Rs 10 per unit and variable cost is Rs 6 per unit. Determine profit using technique of marginal costing.
    a.Rs 2,00,000
    b.Rs 8,00,000
    c.Rs 6,00,000
    d. None of the above
8. While computing profit in marginal costing
    a. Total marginal cost is deducted from total sales revenues
    b. Total marginal cost is added to total sales revenues
    c. Fixed cost is added to contribution
    d. None of the above
9. Marginal costing is also known as
    a. Direct costing   b. Variable costing   c. Both a and b   d. None of the above
10. When contribution is negative but less than fixed cost,
    a. There is loss equal to fixed costs
    b. There is loss more than fixed costs
    c. There will be loss less than fixed costs
    d. All of above are false
11. Which of the following is the correct description of the break-even point?

a. Where total revenue equals total variable costs

b. Where total revenue equals total fixed and variable costs

c. Where total revenue equals total fixed costs

d. Where total revenue equals total contribution

12. In a profit-volume chart, what does the point at which the contribution line touches the vertical axis represent?

a. Total fixed costs b. The break-even point

c. Total contribution d. Total variable costs

13. Which one of the following best describes the margin of safety?

a. The extent to which the total sales revenue exceeds the total variable costs

b. The extent to which the total sales revenue exceeds the total fixed costs

c. Fixed costs/ (Sales revenue per unit – variable costs per unit)

d. The extent to which the total sales revenue exceeds the total fixed and variable costs

14. If the activity level increases 10%, total variable costs will

a. remain the same b. increase by more than 10%

c. decrease by less than 10%d. increase by10%

15. CVP analysis does not consider

a.level of activity b.fixed cost per unitc.variable cost per unitd.sales mix

16. Which of the following is not an underlying assumption of CVP analysis?

a.Changes in activity are the only factors that affect costs

b.Cost classifications are reasonably accurate

c.Beginning inventory is larger than ending inventory

d.Sales mix is constant

17. Which of the following would not be an acceptable way to express contributionmargin?

a.Sales minus variable costs

b.Sales minus unit costs

c.Unit selling price minus unit variable costs

d.Contribution margin per unit divided by unit selling price

18.The level of activity at which total revenues equal total costs is the

a.variable point b.fixed point c.semi-variable point d.break-even point

19.The break-even point in units is computed by dividing fixed costs by the

a.contribution margin ratio. b.contribution margin per unit.

c.total contribution margin. d.unit selling price.

20.In a CVP graph, the break-even point is at the intersection of the sales line and the

a.fixed cost line b.variable cost line c.total cost line d.mixed cost line

21.In evaluating the margin of safety, the

a.break-even point is not relevant b.higher the ratio, the greater the margin of safety

c.higher the dollar amount, the lower the margin of safety

d.higher the ratio, the lower the fixed costs

22.If Cost of goods sold = Rs. 40,000GP Margin = 20% of salesCalculate the Gross profit margin.

a.Rs. 32,000 b.Rs.48,000 c.Rs.8,000 d.Rs. 10,000

23.The cost of equity capital is all of the following EXCEPT:

a. the minimum rate that a firm should earn on the equity-financed part of an investment.
b. a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged.
c. by far the most difficult component cost to estimate.
d. generally lower than the before-tax cost of debt.

24.To compute the required rate of return for equity in a company using the CAPM, it is necessary to know all of the following EXCEPT:

a. the risk-free rate.

b. the beta for the firm.

c. the earnings for the next time period.

d. the market return expected for the time period.

25. In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

a. common stock.

b. debt.

c. preferred stock.

d. none of the above.

26. Market values are often used in computing the weighted average cost of capital because

a. this is the simplest way to do the calculation.

b. this is consistent with the goal of maximizing shareholder value.

c. this is required in the U.S. by the Securities and Exchange Commission.

d. this is a very common mistake.

27. For an all-equity financed firm, a project whose expected rate of return plots should be rejected.

a. above the characteristic line

b. above the security market line

c. below the security market line

d. below the characteristic line

28. In weighted average cost of capital, company can affect its capital cost through

a. Policy of capital structure

b. Policy of dividends

c. Policy of investment

d. All of above

29. If return on investment is a measure used on the balanced scorecard, under which perspective would it be listed?

a. Financial perspective   b. Customer perspective

c. Learning and growth perspective   d. Internal business perspective

e. None of the above.

30. What approach is used to compare organisation operations with those of other companies?

a. PERT analysis
b. SWOT analysis
c. Competitor performance assessment
d. Benchmarking

31. What is 'strategy mapping' in the balanced scorecard?

a. Identifying causal links between the four perspectives
b. Mapping the business' processes
c. Setting the mission
d. Agreeing the strategy with the director of the business

32. The overall (weighted average) cost of capital is composed of a weighted average of ___________.

a. the cost of common equity and the cost of debt
b. the cost of common equity and the cost of preferred stock
c. the cost of preferred stock and the cost of debt
d. the cost of common equity, the cost of preferred stock, and the cost of debt

33. Which of the following is not a recognized approach for determining the cost of equity?

a. Dividend discount model approach.
b. Before-tax cost of preferred stock plus risk premium approach.
c. Capital-asset pricing model approach.

d. Before-tax cost of debt plus risk premium approach.

34.How is economic value added (EVA) calculated?

a. It is the difference between the market value of the firm and the book value of equity.
b. It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge.
c. It is the net income of the firm less a dollar cost that equals the weighted average cost of capital multiplied by the book value of liabilities and equities.
d. None of the above are

35.what is the main objective of Activity Based Costing

a. improve product costing
b. identify non-value adding activities in the production process which might be a suitable focus for attention or elimination
c. provide required information for decision making
d. All of the above

36.Cooper and Kaplan recommend using which of the following as the basis, or denominator, when developing activity cost pool rates for activity based costing.

a. the maximum capacity for each activity.
b. the practical capacity for each activity.
c. the planned or budgeted for each activity.
d. the normal capacity for each activity.
e. none of the alternatives given.

37.Activity based cost systems would probably provide the greatest benefits for organizations that use

a. job order costing.
b. process costing.
c. historical costing

d. standard costing.

e. absorption costing.

38. In 2 years you are to receive Rs.10, 000. If the interest rate were to suddenly decrease, the present value of that future amount to you would __________.

a. fall.

b. rise.

c. remain unchanged.

d. cannot be determined

39. The risk arising due to uncertainty about the time element and the price concession in selling a security is called___________.

a. price risk.

b. market risk.

c. trading risk.

d. liquidity risk.

40. The term _________________ refers to the period in which the project will generate the necessary cash flow to recoup the initial investment.

a. internal return.

b. payback period.

c. discounting return.

d. accounting return.

41. The project can be selected if its profitability index is more than ______.

a. 1%.

b. 3%.

c. 5%.

d. 10%.

42. X ltd issues rupees 50,000 8% debentures at a discount of 5%. The tax rate is 50% the cost of debtcapital is __________.

a. 4%.

b. 4.2%.

c. 4.6%.

d. 5%

43. __________ of debt capital is a factor infavor of using more debt capital.

a. Tax advantage.

b. Debt equity norms.

c. Leverage effect.

d. Security of assets.

44. Which of the following statements are true about responsibility accounting?

a. Responsibility accounting results in inter-departmental conflicts

b. In responsibility center more focus is paid on products, processes or jobs

c. No focus is paid on controlling costs

d. None of the above

45. In profit center revenue represents a monetary measure of output emanating from a profit center in a given period irrespective whether

a. The revenue is realized or not

b. The output is sold or not

c. Both a and b

d. None of the above

46. Contribution margin center is also known as

a. Expense center

b. Profit center

c. Investment center

d. All of the above

47. Which of the following is responsibility center?

a. Expense center

b. Profit center

c. Investment center

d. All of the above

48. In responsibility accounting, responsibilities of various groups or individuals are identified in terms of

a. Work

b. Revenue

c. Cost

d. All of the above

49. Responsibility Accounting is also known as

a. Profitability accounting

b. Activity accounting

c. Both a and b

d. None of the above

50. Economic value added, or residual income is a measurement mainly used to evaluate

a. revenue centre.

b. cost centre

c. profit centre.

d. investment centre.

e. responsibility centre.

51. Residual income is

a. income based on compound or annuity depreciation.

b. income after subtracting interest on long term debt.

c. income after subtracting depreciation. d. income after adjusting assets to current value.

e. income after subtracting a minimum desired amount of income.

52. Which type of responsibility center has the greatest amount of autonomy?

a. a revenue center.

b. a cost center.

c. a profit center.

d. an investment center.

e. none of these.

53. Which of the following is the best description of zero-base budgeting?

a. Zero-base budgeting is a technique applied in government budgeting in order to have a neutral effect on policy issues

b. Zero-base budgeting requires a completely clean sheet of paper every year, on which each part of the organization must justify the budget it requires

c. Zero-base budgeting starts with the figures of the previous period and assumes a zero rate of change

d. Zero based budgeting is an alternative name of flexible budget

54. A benefit of using activity-based costing in a government is:

a. Understanding and controlling the allocation of indirect costs to programs.

b. Finding lower cost alternatives.

c. Better measures of the cost of service outcomes.

d. All of the above.

55. A company has a capital employed of Rs.200,000. It has a cost of capital of 12% per year. Its residual income is Rs.36,000. What is the company's return on investment?

a. 30%   b. 12%   c. 18%   d. 22%

56. P/V ratio is an indicator of---------------------.

a. the rate at which goods are sold.

b. the volume of sales

c. the volume of profit

d. the rate of profit

57. An increase in variable costs -----------------.

a. reduces contribution

b. increases the profit

c. increases p/v ratio

d. increase margin of safety

58. Sales Rs. 25,000; Variable cost Rs. 8,000; Fixed cost Rs. 5,000; Break Even sales invalue----------------.

a. Rs.7936

b. Rs.7353

c. Rs.8333

d. Rs.9090

59. Sales Rs. 25,000; variable cost Rs. 15,000; Fixed cost Rs. 4,000; P/Vratio is ---------------.

a. 40%

b. 80%

c. 15%

d. 30%

60. Under marginal costing stock are valued at------------------

a. fixed cost

b. semi variable cost

c. variable cost

d. market price

61. In 'make or buy' decision, it is profitable to buy from outside only when the supplier's price is below the firm's own ______________.

a. Fixed Costb. Variable Costc. Total Costd. Prime Cost

62. Decisions are made by company which products to manufacture and sell and in what quântities out of many product lines are considered as

a.Incremental decisionsb.Outsource decisions

c.Product mix decisionsd.In-source decisions

63. Which one of the following responsibility centres has independent control of its sales income and its fixed assets?

a. Profit centre b. Cost centre c. Revenue centre d. Investment centre

64. Which one of the following is the formula for Residual Income (RI)?

a. Net cash flow for year + notional interest charge

b. Net cash flow for year – notional interest charge

c. Profit before tax + notional interest charge

d. Profit before tax – notional interest charge

65. The term 'EVA' is used for:

a. Extra Value Analysis, b. Economic Value Added,

c. Expected Value Analysis, d. Engineering Value Analysis.

66. Return on Investment may be improved by:

a. Increasing Turnover,b. Reducing Expenses,

c. Increasing Capital Utilization, d. All of the above.

67. Which of the following has Net profit as basis for calculation

a. Net present value b. Average rate of return

c. Internal rate of return d. Payback period

68. Which of the performance evaluation methods takes into consideration tax effects?

a. Economic value added b. Return on sales

c. Residual income d. Return on investment

69. Which of the following statements is correct?

a. If the NPV of a project is greater than 0, its PI will equal 0.

b. If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0.

c. If the PI of a project is less than 1, its NPV should be less than 0.

d. If the IRR of a project is greater than the discount rate, k, its PI will be less than 1 and its NPV will be greater than 0.

70. The method provides correct rankings of mutually exclusive projects, when the firm is not subject to capital rationing.

a. net present value b. internal rate of return

c. payback period d. profitability index