Please record your answers on a scan-tron. Please do not write on this test since you will return this test with your scan-tron. Each correct answer is worth 1 point each.

1. Jill wants to start her own business, but knows little about how to set up an accounting system or interpret financial information. "I'm not worried about accounting," she tells her friends. "I'll just hire a part-time bookkeeper to handle all that type of stuff, and focus my attention on what I like—finding ways to satisfy my customers." Which of the following is the best response to Jill's comments?
A. Fine. Just make sure the bookkeeper you hire knows how to use a database, since this type of software is the heart of any efficient accounting system.
B. Although you can hire someone to keep your books, you'll still need to know how to read, understand, and interpret basic accounting reports in order to make good business decisions.
C. Most entrepreneurs would agree with your opinion. The work done by accountants is mainly clerical in nature, so time spent by business owners on accounting tends to take them away from more important tasks.
D. You have a good plan. Only managers of large firms require knowledge of accounting. Owners and managers of small businesses can easily get by with just a part-time bookkeeper.

2. A basic difference between managerial accounting and financial accounting is that managerial accounting:
A. adheres to rules set by the GASB, while financial accounting uses a different group of rules set by the FASB.
B. involves the preparation of the balance sheet and income statement while financial accounting involves the preparation of the statement of cash flows.
C. handles recording and classifying information about transactions that have no direct financial impact on the firm, while financial accounting handles the recording and classifying of information about transactions that do have a financial impact.
D. provides information primarily intended for managers and others inside the company, while financial accounting provides information primarily intended for people outside the organization.

3. April works in the accounting department at Henson's Tire & Auto. She is concerned that the company has been placing too many orders for office supplies and wants to look at all of the transactions involving the purchase of office supplies for the past several months. April can find such information by looking at the supplies account in the:
A. ledger.
B. cash flow statement.
C. journal.
D. account debit book.

4. Tyler works as an accountant for a mid-sized retail store. He has just completed a trial balance that resulted in no unexpected problems. Tyler's next task is likely to be:
A. Conducting the full audit.
B. Preparing a tax return for the company.
C. Preparing the store's balance sheet and other major financial statements.
D. Presenting the trial balance to the company owners.
5. At the time the Jepson Plumbing Supply prepared its financial statements, it had several customers who bought goods over the past three months on its "90 days same as cash" credit plan. These customers had not yet paid their bills, but they have good credit ratings and Jepson is confident that they will make their payments on time. The amount these credit customers owe would show up as part of the:
A. current assets listed on Jepson's balance sheet.
B. current liabilities listed on Jepson's balance sheet.
C. a deferred cash flow on Jepson's statement of cash flows.
D. unrealized revenue reported on Jepson's income statement.

6. "You Incorporated", Figure 17.6, in Chapter 17 shows how to calculate your personal balance sheet. You can list your assets as well as your debts, in order to calculate your ________.
A. cash flow
B. real income
C. working capital
D. net worth

7. McCartney Consulting Group is a management-consulting firm that provides its expertise to businesses that employ its services. Since it does not hold an inventory of goods or produce any goods itself:
A. its revenue will equal its net income.
B. its gross profit could be identical to its net revenue.
C. it is unlikely to have any operating expenses.
D. its balance sheet will not record any current assets.

8. 10\textsuperscript{th} Generation Electronics had two transformers in its inventory, one purchased in February for $11,800 and the other acquired in September for $13,300. In December, they sold one of the transformers to Ram Enterprises for $16,400 and reported a gross profit of $3,100. 10\textsuperscript{th} Generation Electronics evidently uses the ________ inventory valuation method.
A. FIFO
B. LIFO
C. Average
D. Flexplus

9. Preferred Pet Care Clinic, Inc is a mobile veterinary care company that travels to its clients' homes to administer veterinary care to well and sick pets. Its business is booming, with a full schedule of appointments each week. On a weekly basis, the office manager orders a larger amount of vaccines, antibiotics, and other products from its suppliers with the understanding that it will pay for these supplies in one month's time. A sizeable percentage of Preferred Pet Care's clients are elderly persons who are on fixed incomes. These customers eventually pay their bills, but usually not upon receipt of service. It sometimes takes them upwards of two months to remit. As an accounting intern willing to advise the owner, which of the following statements is important to your analysis?
A. Noting the fact that the clinic continues to order more supplies each month, the veterinary clinic will certainly not experience a cash flow crunch. If anything, it would be a good idea to hire additional veterinarians.
B. Noting the fact that the clinic continues to order larger amounts of supplies each month, the company should make certain that its cost of goods sold is not greater than 50% of the price it is charging.
C. Due to the fact that clients are not paying when service is received, the clinic may experience a cash flow crunch; an inability to maintain enough cash to pay for its supplies each month.
D. Preferred Pet Care is doing everything right. It was wise to develop a niche market because senior citizens have greater savings than younger families. This is a good business and recessionary proof. The firm will continue to grow and prosper.
10. Your firm is a supplier to a major chain of discount stores. You have heard rumors that this chain of discount stores is in financial difficulty. Which financial ratios would indicate the discount store's ability or inability to pay its short-term debts?
A. liquidity ratios
B. leverage ratios
C. activity ratios
D. profitability ratios

11. In the current economic climate, banks are remaining very conservative in their lending practices. Peak Performance Sporting Goods is seeking a loan for expansion. As a loan officer for the local bank, you calculate the acid-test ratio for Peak Performance Sporting Goods. Using the information below, you determine Peak Performance's acid-test ratio = _____.

| Cash | $25,000 |
| Accounts Receivable | 45,000 |
| Inventory | 140,000 |
| Fixed Assets | 190,000 |
| Current Liabilities | 70,000 |
| Long-term Liabilities | 90,000 |

A. 1.0
B. 1.5
C. 2.5
D. 3.0

12. Peak Performance Sporting Goods Company competes with several other firms in the retail industry for important visibility and retail space in large stores. The company's chief financial officer knows that in order to attract investors, the company must demonstrate growth, and its management must outperform the competition. The CFO continuously watches ______________ because these are key to measuring growth.
A. activity ratios
B. profitability ratios
C. leverage ratios
D. liquidity ratios

13. Allison Robards is the owner of Backstreet Books, a small eclectic style bookstore in a bustling college town. Allison prides herself in selecting hard to find books and magazines that her clientele enjoy. Recently, Allison is experiencing a cash flow shortage, and she is concerned that she may be purchasing too many copies of each title. Having recently completed a business class, you suggest to Allison that she calculate the ______________ ratio for her store, and then compare it to other stores in her industry.
A. current
B. debt to equity
C. Return on equity
D. Inventory turnover

14. Which of the following activities is most likely to be performed by a financial manager?
A. design of a marketable product that satisfies an unmet need
B. identification of specific target markets for a firm's goods
C. preparation of the balance sheet and income statement for the firm
D. analysis of the tax implications of various managerial decisions

15. Charging interest on past due customer accounts reflects that:
A. credit sales cost more to manage than they are worth.
B. credit customers receive preferential treatment.
C. money has a time value.
D. government regulations protect customers who are late in making payments.
16. Allison O'Toole sells high end accessories at her resort boutique in Destin, FL. During the past ten years, Allison's business has performed quite well. Even when she made the decision to expand her store by purchasing the building next door, she financed this event by reinvesting her profits. Up until now, Allison has:
A. utilized a significant amount of debt financing.
B. leveraged her financing.
C. utilized equity to finance large capital expenditures.
D. successfully found equity financing through the sale of stock.

17. Jackson Plumbing, a medium-sized company, wants to guarantee that it can obtain short-term funds to meet unexpected future cash needs. Which of the following strategies would best meet the financing needs of Jackson Plumbing? Financial managers at Jackson Plumbing should:
A. issue commercial paper as needed.
B. request that the firm's board of directors approve an issue of additional shares of common stock.
C. arrange for a revolving credit agreement with Jackson Plumbing's commercial bank.
D. eliminate credit sales to improve their cash inflows and reduce the firm's investment in accounts receivable.

18. According to an article in STLToday.com, "Anheuser Busch-InBev's tougher line toward suppliers has drawn fire. The U.S. division is losing some suppliers who can't adjust to the company's new policy of taking as long as 120 days to pay bills. Before the InBev takeover, Anheuser-Busch paid many of its accounts in 30 days." This news refers to the brewer's __________ policies.
A. line of credit
B. short-term loan
C. discount
D. trade credit

19. After earning $30 million in net income, Rolatrim Industries distributed $5 million in dividends to their stockholders. The board of directors of the firm decided to invest the remaining $25 million back into the business. This $25 million reinvestment of profits represents:
A. a trust fund.
B. retained earnings.
C. preferred capital.
D. mutual funds.

20. Chunky Chicken, Inc. announced yesterday that it plans to issue $100 million in debenture bonds to fund the expansion of its fast food chain of restaurants. In financial terms, this means:
A. The corporation will borrow $100 million worth of long term financing. The bond issue will not carry any collateral.
B. The corporation will issue $100 million worth of equity financing. The bond issue will be backed by the property and buildings purchased with the funds.
C. The corporation will borrow $100 million worth of long term financing. The issue will be backed by the property and buildings purchased with the funds.
D. The corporation will issue $100 million worth of interest free bonds. Financiers will be paid from the revenues created by the individual franchises.

Mini-Case
Penny Stock is the chairperson of Pirate Recording Company Inc. She is the person responsible for the tremendous growth this company has enjoyed over the past three years. It was Penny's intuition and clever negotiating that enabled the company to sign two very hot recording artists: Half a Dollar and N'elli. These groups have generated profits of over $25 million.

The future looks even brighter at the firm because several current and aspiring entertainers have indicated an interest in signing on with Pirate Recording. This incredible growth has delighted everyone at the company, but it has also created a major problem for Penny. Pirate Recording has never been a major player in the recording industry, primarily because of limited capital. In order to take the company to the next level Penny realizes that she will need to expand the firm's personnel and equipment. The amount of new funds required to finance this needed expansion is $150 million. Penny has started to consult with others about how to finance this major expansion of the company.
21. If Pirate Recording elects to offer an IPO (Initial Public Offering), it will involve preparing full financial disclosure with the ___________. The firm is advised to solicit the services of an investment banker/underwriter, who will analyze the market and determine the best price for the new issue of Pirate Recording stock. The offering will then be sold on the ___________.
A. Internal Revenue Service; secondary market
B. Fair Trade Commission; primary market
C. Federal Trade Commission; secondary market
D. Securities and Exchange Commission; primary market

22. Paula's Pasta Paradise plans to offer their first stock sale to the general public. Prior to selling their stock, the firm must:
A. pay dividends to the existing stockholders.
B. register its stock offering with the SEC.
C. establish an initial selling price that cannot exceed $25 per share.
D. determine the brokers that will initially trade their stock offering.

23. After operating for years as a privately held corporation, MidAtlantic Ironworks plans to publicly trade its stock. As a midsized firm, MidAtlantic wants to avoid excessive paperwork, and the fear of being delisted in the future. The ________ provides the best fit for MidAtlantic's plans.
A. over-the-counter market
B. New York Stock Exchange
C. American Stock Exchange
D. secondary market

24. Although you were not fortunate enough to get Chipper's Golf Resort stock [ticker symbol: CHPR] as an IPO, you are still thinking about trying to add some to your portfolio. Last week when you mentioned it to your broker, he said that there are plenty of shares trading on ____________, but, he wanted to send you the company's financial disclosures provided in the ______ before you finalize your decision.
A. the secondary market; prospectus
B. the NASDAQ; regulatory agreement
C. the OTC; regulatory agreement
D. the primary market; prospectus

25. The disadvantages of selling stock to obtain long-term financing include:
A. the legal obligation to pay dividends if the company is profitable.
B. the funds contributed by stockholders must be repaid from after tax profits.
C. a reduction in the market value of the firm's products.
D. a possible change in management and policies in the company.

26. Tyrone owns shares of ________ stock in New Jersey Power. His stock certificate states that any missed dividends will be paid prior to any future common stock dividend payments.
A. classified common
B. preemptive common
C. convertible preferred
D. cumulative preferred

27. Moody's Investor Service currently rates the Sasha Deal Corporation bonds as a C grade. This indicates that these bonds are:
A. of the highest quality with lowest default risk.
B. moderately speculative.
C. corporate bonds with variable interest rates.
D. the lowest quality and the highest risk.
28. Having just returned from serving with the U.S. Marines in Afghanistan, Alejandro has managed to save most of his earnings. He has enrolled in the local community college and he is living in his parent's lower level while he assimilates back into U.S. life. As his business major friend, he has come to you for advice. He would like to see his $40,000 savings grow, yet he knows that he will need it in about five years when he and his girlfriend are out of school and make plans to get married. He also worries that his car may break down and he will need to invest in another used car. Which of the following would you suggest for Alejandro?
A. In order for Alejandro to see growth, he will need to place the entire $40,000 in one stock offering. You suggest a biotech stock that promises growth.
B. Alejandro is still young. He needs to consider high growth, higher risk stocks and corporate bonds. He is young enough to recoup his investment if it should experience a loss.
C. Alejandro should determine what types of companies he is passionate about. Does he like socially conscious companies; does he want to show his appreciation to the defense industry for weaponry that brought him back safely? He should lead with his heart, but should be warned that some of those companies will produce better yields than others.
D. Since liquidity is a concern, Alejandro would do best to diversify into four to eight different investments, and keep a reasonable amount in cash (a savings account) for emergencies.

29. Louis owns an import business. After traveling to France on numerous occasions, he developed a taste for fine French wines. A radio report that he heard this morning indicated that the dollar has fallen sharply against the euro. Based on this information, Louis expects that:
A. American goods will become more expensive in France.
B. French wines will become more expensive in the United States.
C. French wines will become less expensive in the United States.
D. the French government will place an embargo on American exports.

30. The Fed bought several billion dollars worth of U.S. government securities. The purpose of this action is to:
A. decrease the size of the national debt.
B. improve its financial position by investing in relatively safe interest-earning assets.
C. stimulate the economy by increasing the amount of money in circulation.
D. drive up interest rates to cool off inflationary pressures.

31. After Bill and Jillian deposited nearly $30,000 in a savings account at Farmers National Bank, the bank failed and filed for bankruptcy. Because the Farmers National Bank participates in the FDIC, Bill and Jillian:
A. should be okay because their account is fully insured by the FDIC.
B. can recover up to $20,000, but they will probably lose the rest since their deposits exceed the maximum coverage offered by the FDIC.
C. will lose their savings because the FDIC only insures business deposits.
D. will be eligible to recover 80 percent of the value of their deposit, less a $2,500 deductible.

32. Xavier deposited $75,000 in various individual accounts at his local credit union. He and his wife also have a joint savings account worth $34,500. The total amount for which the National Credit Union Administration (NCUA) would insure these deposits would be:
A. $0, because the NCUA does not insure individual credit union deposits.
B. $73,220
C. $100,000
D. $109,500

33. Banks prefer that customers use an electronic funds transfer system rather than traditional methods of payment because:
A. traditional payments are subject to regulation by the Fed and electronic transactions are not.
B. electronic funds are subject to a smaller reserve requirement than traditional funds.
C. electronic funds transfer is more efficient and less expensive for banks than traditional check-based payments.
D. the bank generates advertising revenue from its website.