



Free Questions for CPA-Business by dumpssheet

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Question 1

Question Type: MultipleChoice

Foster Inc. is considering implementing a lock-box collection system at a cost of \$80,000 per year. Annual sales are \$90 million, and the lock-box system will reduce collection time by 3 days. If Foster can invest funds at 8 percent, should it use the lock-box system? Assume a 360-day year.

Options:

- A- Yes, producing savings of \$60,000 per year.
- B- No, producing a loss of \$20,000 per year.
- C- No, producing a loss of \$60,000 per year.
- D- No, producing a loss of \$140,000 per year.

Answer:

B

Explanation:

Choice 'b' is correct. No, do not use the lock-box system, which produces a loss of \$20,000 per year.

$$\frac{3 \text{ days}}{360 \text{ days}} \times \$90,000,000 \times \frac{8}{10} = \begin{array}{l} \$80,000 \text{ Lock-box cost} \\ \underline{60,000 \text{ Investment income}} \\ \underline{\underline{\$20,000 \text{ Loss per year}}} \end{array}$$

Question 2

Question Type: MultipleChoice

Which one of the following represents methods for converting accounts receivable to cash?

Options:

- A- Trade discounts, collection agencies, and credit approval.
- B- Factoring, pledging, and electronic funds transfers.
- C- Cash discounts, collection agencies, and electronic funds transfers.
- D- Trade discounts, cash discounts, and electronic funds transfers.

Answer:

C

Explanation:

Choice 'c' is correct. The following are methods of converting accounts receivable (AR) into cash:

1. Collection agencies - used to collect overdue AR.
2. Factoring AR - selling AR to a factor for cash.
3. Cash discounts - offering cash discounts to customers for paying AR quickly (or paying at all).

For example: 2/10, net 30.

4. Electronic fund transfers - a method of payment, which electronically transfers funds between banks.

Therefore, only choice 'c' matches the above list.

Choice 'a' is incorrect. Trade discounts offer discounts on future merchandise purchases offered to trade customers. These discounts do not turn AR into cash.

Choice 'b' is incorrect. Pledging AR as collateral on a loan does not convert AR into cash.

Choice 'd' is incorrect, per choice for 'a' above.

Question 3

Question Type: MultipleChoice

Hagar Company's bank requires a compensating balance of 20 percent on a \$100,000 loan. If the stated interest on the loan is 7 percent, what is the effective cost of the loan?

Options:

- A- 7.00 percent.
- B- 8.18 percent.
- C- 8.40 percent.
- D- 8.75 percent.

Answer:

D

Explanation:

Choice 'd' is correct. Total interest for the loan is \$100,000 7% or \$7,000. The effective amount received is \$80,000 after the 20% compensating balance. The effective interest is

$$\$7,000 / \$80,000 = 8.75\%$$

Choices 'a', 'b', and 'c' are incorrect, per the above calculation.

Question 4

Question Type: MultipleChoice

A working capital technique that increases the payable float and, therefore, delays the outflow of cash is:

Options:

- A- Concentration banking.
- B- A draft.
- C- A lock-box system.
- D- The use of a local post office box.

Answer:

B

Explanation:

Choice 'b' is correct. A draft is a working capital technique that increases the payable float and, therefore, delays the outflow of cash.

Each of the three following choices accelerate the flow of cash and/or data:

Choice 'a' is incorrect. Concentration banking automatically channels funds from every source of the business into a single usable account, thus quickly identifying available funds each day, and moving them to accounts that have funding requirements that day, and investing the remainder in short-term, interestbearing instruments until needed.

Choice 'c' is incorrect. A lock-box system is simply a central collection location that receives payment checks (generally, the bank where a central checking account is maintained by the firm).

Choice 'd' is incorrect. The use of a local post office box allows more rapid access to mail than actual delivery to a street address.

Question 5

Question Type: MultipleChoice

The collection of accounts receivable can be accelerated by the use of:

Options:

- A- Turnaround documents.
- B- A lockbox system.
- C- Bank drafts.
- D- Remittance advices.

Answer:

B

Explanation:

Choice 'b' is correct. Lockboxes are systems of mailboxes, usually in many locations, where customers send payments. The company's bank checks these mailboxes frequently and immediately deposits checks received. This accelerates the collection of accounts receivable.

Choice 'a' is incorrect. A turnaround document is a computer output that can later be used as a source document. No relevance to A/R collections.

Choice 'c' is incorrect. A bank draft is a document issued by a bank to indicate that payment has been made.

Choice 'd' is incorrect. A bank remittance advice is a document generated by a bank to indicate that payment has been made by a customer.

Question 6

Question Type: MultipleChoice

Kemple Cleaning Services is a newly established janitorial firm, and the owner is deciding which type of checking account to open. Kemple is planning to keep a \$500 minimum balance in the account for emergencies and plans to write an average of 80 checks per month. The bank charges \$10 per month plus a \$0.10 per check charge for a standard business checking account with no minimum balance.

Kemple also has the option of a premium business checking account, which requires a \$2,500 minimum balance but has no monthly fees or per check charges. If Kemple's cost of funds is 10 percent, which account should Kemple choose?

Options:

- A- Standard account, since the savings is \$34 per year.
- B- Premium account, since the savings is \$34 per year.

C- Standard account, since the savings is \$16 per year.

D- Premium account, since the savings is \$16 per year.

Answer:

D

Explanation:

Choice 'd' is correct. The total cost for a standard account is:

Monthly charge		\$ 10
Per check charge (\$.10 × 80 checks)		<u>8</u>
Total per month		\$ 18
Total per year standard (\$18 × 12)	\$216	

Cost per year for premium is cost of the extra amount (\$2,000) that Kemple must maintain in the account.

Total per year premium (10% \$2,000) = \$200

The premium account will save \$16.

Choices 'a', 'b', and 'c' are incorrect, per the above calculation.

Question 7

Question Type: MultipleChoice

MFC Corporation has 100,000 shares of stock outstanding. Below is part of MFC's Statement of Financial Position for the last fiscal year.

MFC Corporation	
Statement of Financial Position - Selected Items	
December 31, 1996	
Cash	\$455,000
Accounts receivable	900,000
Inventory	650,000
Prepaid assets	45,000
Accrued liabilities	285,000
Accounts payable	550,000
Current portion, long-term notes payable	65,000

What is the maximum amount MFC can pay in cash dividends per share and maintain a minimum current ratio of 2 to 1? Assume that all accounts other than cash remain unchanged.

Options:

A- \$2.05

B- \$2.50

C- \$3.35

D- \$3.80

Answer:

B

Explanation:

Choice 'b' is correct. The current ratio is found by dividing current assets by current liabilities. Presently current assets are:

Cash	\$ 455,000
Accounts receivable	900,000
Inventory	650,000
Prepaid assets	<u>45,000</u>
Total current assets	\$2,050,000
Current liabilities total	
Accrued liabilities	\$ 285,000
Accounts payable	550,000
Current portion of LT debt	<u>65,000</u>
Total	\$ 900,000

Because current liabilities must be two times current liabilities, the current assets cannot go below \$1,800,000. Thus current assets can go down:

$$\begin{array}{r} \$2,050,000 \\ \underline{1,800,000} \\ \text{or } \$ 250,000 \end{array}$$

On a per share basis this is $\$250,000 / 100,000$ shares or $\$2.50$ per share.

Choices 'a', 'c', and 'd' are incorrect, per the above calculation.

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