

Session 2: Post Class tests

1. In accrual accounting, you record transactions as they occur, not when payment is received or made. Assume that you sell a 3-year service contract for \$150 million at the start of a fiscal year, and that you get paid half of that amount up front and the other half two years from now. Using accrual accounting principles, how much should you show as revenues this year?
 - a. \$ 50 million
 - b. \$ 75 million
 - c. \$ 125 million
 - d. \$ 150 million
 - e. None of the above
2. Accountants draw a distinction between cost of goods sold and other operating expenses in computing gross and operating income. As a manufacturing company, in which of these two groups would you include each of the following expenses?
 - a. Material used to produce products/services
 - b. Labor expenses
 - c. Selling and Marketing Expenses
 - d. G&A costs
 - e. Factory maintenance costs
3. There are usually three measures of income in an income statement: gross profits, operating income and net income. For a company that has a very low cost of goods sold, very high selling and G&A expenses and lots of debt, which of the following would you expect to see in the income statement?
 - a. High gross profits, high operating profits, high net profits
 - b. High gross profits, low operating profits, high net profits
 - c. High gross profits, low operating profits, even lower net profits
 - d. Low gross profits, low operating profits, even lower net profits
 - e. High gross profits, high operating profits, low net profits
4. If your company owns a 5% (minority) stake in another company (subsidiary), where in the income statement would you expect to see the profit effects of this holding?
 - a. In the company's revenues
 - b. In the company's gross profits
 - c. In the company's operating profits
 - d. In the company's net profits
 - e. No where
5. If an item is an extraordinary expense, which of the following should you expect to see for this item in your income statements over time?
 - a. The expense will show up every year, albeit with different values
 - b. The expense will show up most years, sometimes positive, sometimes negative.
 - c. The expense will show up at regular intervals (every 3 years)
 - d. The expense will show up infrequently and without regularity
 - e. None of the above