

Exercises 4



Running head: FINANCIAL ANALYSIS EXERCISES AND QUESTIONS Financial Analysis Questions and Exercises of Institution]

Discussion Questions 9-11

CVP analysis is used to calculate the volume of units to be produced or services rendered in order to make a desired level of profit. This is a basic management tool which is frequently used in basic planning.

In CVP analysis, the term breakeven means no-profit no-loss gain i. e that volume of products/services that will generate just enough income to cover fixed and variable costs.

Discussion Questions 9-17

Direct costs are easily and physically traceable to a product or other unit of business or segment, while indirect cost are usually incurred to facilitate these segments in an organization. Indirect costs are difficult to trace to a product are business unit.

In the context of teaching an accounting class, the direct cost will be the salary of the teacher while indirect costs include the rent of the building, utility expenses etc.

Discussion Questions 9-19

Out-of-pocket cost and opportunity cost can be applied to our personal financial decisions in almost every situation where an outlay of cash is involved. Whenever, we spend cash on something, we forgo the potential earnings i. e. interest if we were to hold this cash with bank or any other investment opportunity.

Practice Exercise 15-8 Fixed Costs and Variable Costs

Correct answer: 3. Wood used to make custom tables

Practice Exercise 15-13 Direct and Indirect Costs

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Best answer: 1. To evaluate business segments on the basis of only those costs directly traceable to each segment

Practice Exercise 15-15 Out-of-Pocket Costs and Opportunity Costs

Correct Answer: 1. Revenue lost from sale of cakes by deciding to sell only cookies

Exercise 15-8 Cost Classifications

1. Product(MOH) , Variable

2. Period, Variable

3. Product(Labor), Fixed

4. Period, Variable

5. Product (MOH), Variable

6. Period, Fixed

7. Period, Fixed

8. Product (MOH), Fixed

9. Period, Variable

10. Product (DM), Variable

11. Period, Fixed

12. Period, Variable

13. Product (DM), Variable

14. Product (DM), Variable

Chapter 19: Quiz Problem 1

1. Paying out a \$2 million cash dividend.

Cash and net working capital will decrease by \$2 million.

2. A customer paying a \$2, 500 bill resulting from a previous sale.

Cash and Net working capital increase

3. Paying \$5, 000 previously owed to one of its suppliers.

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Cash decreases and Net working capital remains unchanged

4. Borrowing \$1 million long-term and investing the proceeds in inventory.

Cash remains unchanged and Net working capital increases

5. Borrowing \$1 million short-term and investing the proceeds in inventory.

Cash and Net working capital remain unchanged

6. Selling \$5 million of marketable securities for cash.

Cash and Net working capital increase

Chapter 19: Quiz Problem 5

The working Capital requirements will be reduced because of lower inventory level (a Current asset), and as we know, Net working capital = Current assets - Current liabilities. Cash conversion cycle will shorten as lesser cash will be 'trapped' in inventory.

Chapter 18: Discussion Question 3

Present value of money is important in Capital budgeting decisions because these are usually longer term decisions and cash inflows and outflows occur at different points in time. In order to calculate the true profitability of an investment , time value of money should be taken into consideration at all times and in all methods used.

Works Cited

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