strategic FINANCE

SELF-STUDY QUIZ

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The Quiz program is designed around learning objectives, review questions and feedback, and a final test. Review questions and feedback are included to ensure cohesive learning. One hour of CPE credit is awarded for every 50 minutes spent on each topic, so you have the chance to earn three hours of CPE per month. Your State Board of Accountancy is the final authority on whether this course satisfies its rules regarding CPE, so please check with it regarding the Quiz program. Some states assign formal sponsorship numbers, and IMA's state numbers are:

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How to Participate

1. Complete the quiz form located on page 76.
2. To obtain maximum benefit from the quiz, we recommend that you work on the review questions first and study the feedback to your response. You will not earn CPE from passing the review questions.
3. Circle your answer for each quiz question on the final test.
4. Cut out the completed final test and order form, or copy both pages and mail or fax them to IMA with complete payment information.
5. You must be an active IMA member to participate in this program.
6. If you successfully answer 70% or more of final test questions, you will be awarded 3 CPEs. Partical CPE credit will not be given. A letter confirming the CPE credits will be mailed to you.

Learning Objectives and Review Questions

It's Time to Get Rid of LIFO Conformity (p. 43)

Field of Study: ACCOUNTING — Level: Intermediate

LEARNING OBJECTIVES

1. To understand the original purpose and implications of the LIFO conformity rule.
2. To understand the improvements in financial reporting that FIFO and a hybrid LIFO/FIFO method can produce.
3. To understand the role of replacement values in improving financial reporting.

REVIEW QUESTIONS

1. Which of the following statements about the LIFO conformity rule is false? The rule:
   - **a.** Created the dysfunctional conflict between tax and financial reporting policies that still continues today.
   - **b.** Coerces managers who choose LIFO for its tax savings to also produce financial statements that provide incomplete information to the capital markets.
   - **c.** Requires the use of a periodic inventory system (as opposed to perpetual).
   - **d.** Requires taxpayers who use LIFO to use it for both tax and financial reporting purposes.
2. The article lists several flaws that the use of LIFO introduces into the financial statements. Which is not one of these flaws?
   - **a.** LIFO often overstates the value of inventory on the balance sheet.
   - **b.** LIFO omits from income the holding gain realized when items are sold after their wholesale values have increased.
   - **c.** LIFO's allocated cost of the goods sold fails to approximate replacement value if the inventory level grows.
   - **d.** If management cuts its physical inventory after adopting a just-in-time system, LIFO forces old costs to flow to the income statement, thus including in gross margin holding gains realized in prior years but not reported.
3. The disadvantage of FIFO is that it:
   - **a.** Overstates inventory.
   - **b.** Typically understates inventory.
   - **c.** Makes the corporation pay more taxes than the minimum required by law.
   - **d.** Violates the historical cost principle of GAAP.
4. Only which one can eliminate the LIFO conformity rule?
   - **a.** U.S. Congress.
   - **b.** Financial Accounting Standards Board (FASB).
   - **c.** International Accounting Standards Board (IASB).
   - **d.** Committee on Accounting Procedure (CAP).

5. If the LIFO conformity rule is eliminated,
- **a.** The FASB may be persuaded to prohibit the use of LIFO for financial reporting purposes.
- **b.** LIFO will no longer be permitted for tax purposes.
- **c.** There will likely be strong opposition from American companies.
- **d.** There will likely be strong opposition from the IASB.

6. Which is not one of the disadvantages of the hybrid LIFO/FIFO method of inventory valuation?
- **a.** The FIFO ending inventory may not always approximate the replacement value at the balance sheet date if the turnover is low.
- **b.** LIFO may not approximate the wholesale value of the sold goods.
- **c.** The LIFO value for "cost of goods sold" can differ from the figure obtained from using actual replacement value if inventory levels change significantly during the year.
- **d.** Income taxes will be increased.

Implementing Strategy (p. 48)

Field of Study: MANAGEMENT — Level: Basic

LEARNING OBJECTIVES

1. Identify the three components affected by strategy implementation.
2. Explain ways strategy implementation may fail.
3. Define control and implementation systems necessary for successful implementation.

REVIEW QUESTIONS

1. The fundamental problem with strategy implementation is:
- **a.** Excessive cost.
- **b.** Too many people are involved.
- **c.** The unsatisfying success rate of intended strategies.
- **d.** Inability to decide on which strategy to implement.

2. Key success factors for strategy implementation are:
- **a.** Funding, outside consultants, and support from academic research.
- **b.** No longer used because the Sarbanes-Oxley Act (SOX) has eliminated their advantages.
- **c.** Production, sales, finance, and administration.
- **d.** Culture, organization, people, and control systems and instruments.

3. What is the most important element for successful strategy implementation?
- **a.** The level of education at the lowest level of the company.
- **b.** Supervisors' ability to convince workers to do what they don't want to do.
- **c.** A weak union.
- **d.** Top management's commitment to the strategic direction itself.

4. What is the purpose of an integrated communications plan?
- **a.** It focuses the employees' attention on the value of the selected strategy.
- **b.** To keep executive levels of the organization informed about the implementation project's progress.
- **c.** It is required to be filed in the project manager's office but is not shown to any other company personnel.
- **d.** It satisfies SEC disclosure requirements as dictated in Sarbanes-Oxley.

5. Two implementation instruments mentioned in the article are:
- **a.** Money and outside consultants.
- **b.** A weak union and a strong management team.
- **c.** Project management and IT staff.
- **d.** Balanced scorecard and supportive software solutions.

Get Ready! (p. 54)

Field of Study: MANAGEMENT — Level: Intermediate

LEARNING OBJECTIVES

1. Understand the "real" economics of pensions.
2. Understand GAAP pension disclosures and reporting.
3. Become familiar with how pensions can be manipulated.

REVIEW QUESTIONS

1. The difference between the fair value of plan assets (FVPA) and the projected benefit obligation (PBO):
- **a.** Always must be reported within the sponsoring company's balance sheet.
- **b.** Is not recognized, even for such companies as airline or steel companies, when liabilities to employees have high liquidation priority.
- **c.** Is the amount the plan is overfunded or underfunded.
- **d.** Should not put a company in violation of its loan covenants.

2. Off-Balance-Sheet Financing:
- **a.** Is a result of GAAP pension accounting.
- **b.** Refers to a real economic liability that is not reflected on the balance sheet.
- **c.** When eliminated impacts the company's balance sheet and income statement.
- **d.** All of the above.

3. When a pension plan amendment is adopted:
- **a.** The pension plan liability increases if a retroactive increase in benefits is negotiated and must be recorded immediately.
- **b.** The pension plan liability increases if a retroactive increase in benefits is negotiated and the total liability/expense can be amortized over time.
- **c.** A prior service cost (PSC) always applies.
- **d.** The pension plan liability decreases if a retroactive increase in benefits is negotiated.

4. Items that may have "delayed recognition" include:
- **a.** The unfavorable difference between the expected and actual return on plan assets.
- **b.** Experience losses only—attributable to such factors as employee turnover.
- **c.** The SFAS No. 87 1x net unrecognized transition obligation/asset.
- **d.** Income/expense that you opt to defer.

5. Sarbanes-Oxley calls for executives and directors to become more financially sophisticated. True or False

It's Time to Get Rid of LIFO Conformity (p. 43)

Field of Study: ACCOUNTING — Level: Intermediate

1. **a.** Incorrect. The rule requires firms to choose between lower taxes and more relevant financial statements.
   b. Incorrect. The lack of current inventory valuations is a problem.
   c. Correct. LIFO may be used under either a periodic or a perpetual system.
   d. Incorrect. This makes the rule dysfunctional.
2. **a.** Correct. During times of inflation, LIFO understates the value of inventory on the balance sheet.
   b. Incorrect. This is a true statement regarding flaws introduced by the use of LIFO.
   c. Incorrect. See answer b. **d.** Incorrect. See answer b.
3. **a.** Incorrect. Although it typically values inventory at a higher amount than LIFO does, FIFO does not overstate inventory; the inventory is valued at its historical cost.
   b. Incorrect. FIFO does not understate inventory; the inventory is valued at its historical cost.
   c. Correct. LIFO allows for a lower tax for most companies.
   d. Incorrect. FIFO does not violate the cost principle.
4. **a.** Correct. Since the rule is a part of the tax code, only the U.S. Congress can repeal it.
   b. Incorrect. Only the U.S. Congress can repeal it.
   c. Incorrect. The IASB has already announced that LIFO isn't acceptable.
   d. Incorrect. The CAP no longer exists. It was replaced by the Accounting Principles Board in 1959 and subsequently by the FASB in 1973.
5. **a.** Correct. The FASB may want to prohibit the use of LIFO if companies no longer have to use it because of the tax laws.
   b. Incorrect. Changing the conformity rule will not eliminate the use of LIFO. The only change would be that companies could use LIFO for tax purposes and FIFO for financial reporting purposes.
   c. Incorrect. There should be no opposition from American companies because they would like the fact that LIFO reduces their taxes yet they can report higher incomes for financial reporting purposes.
   d. Incorrect. The IASB would not object because it doesn't want LIFO to be used for financial reporting.
6. **a.** Incorrect. With low turnover there could be a substantial difference between cost and the replacement cost.
   b. Incorrect. The recent purchases may be at a very different price when turnover is low.
   c. Incorrect. This is a disadvantage.
   d. Correct. Taxes will not be affected because companies will continue to use LIFO for tax purposes but use the hybrid for financial reporting purposes.

Implementing Strategy (p. 48)

Field of Study: MANAGEMENT — Level: Basic

1. **a.** Incorrect. While implementation costs may be high, costs are not the fundamental problem that an unsatisfying success rate is.
   b. Incorrect. It would be difficult to determine that too many people are involved in implementation since, theoretically, everyone should be involved.
   c. Correct. The author identified low success rate as the fundamental problem with strategy implementation.
   d. Incorrect. Until a strategy is decided upon, there can be no implementation and thus no problem with strategy implementation.
2. **a.** Incorrect. These may be resources for the implementation but are not key success factors.
   b. Incorrect. Sarbanes-Oxley has not eliminated advantages of using key success factors for strategy implementation.
   c. Incorrect. These may be departments in the company but are not key success factors.
   d. Correct. Key success factors for strategy implementation are culture, organization, people, and control systems and instruments.
3. **a.** Incorrect. This is not a relevant element.
   b. Incorrect. This is a skill that may be necessary but is not the most important element.
   c. Incorrect. The article does not refer to unions as an element of implementation.
   d. Correct. This is the most important element cited.
4. **a.** Correct. An integrated communications plan keeps all employees informed and focused on the value of the strategy being implemented.
   b. Incorrect. The plan describes what is to be communicated where and how and provides timing and measurement means.
   c. Incorrect. The plan can't fulfill its purpose if it isn't distributed.
   d. Incorrect. There's no connection with SOX requirements.
5. **a.** Incorrect. Funding is a resource rather than an instrument for implementation, and outside consultants may not be necessary.
   b. Incorrect. Whether the shop is open or closed is a condition of employment.
   c. Incorrect. Staffing is a resource.
   d. Correct. The article specifically identifies the balanced scorecard and supportive software as instruments for implementation.

Get Ready! (p. 54)

Field of Study: MANAGEMENT — Level: Intermediate

1. **a.** Incorrect. The difference is not always reported within the sponsoring company's balance sheet. It is reported only if certain tests are met.
   b. Incorrect. It may be appropriate to report this information for firms such as airline or steel companies when liabilities to employees have high liquidation priority.
   c. Correct. The difference does show if the plan is overfunded or underfunded. Decisions regarding proper reporting begin with analyzing this difference.
   d. Incorrect. The difference may put a company in violation of its loan covenants.
2. **a.** Incorrect. GAAP pension accounting does not require

SELF-STUDY QUIZ: Feedback continued

immediate recognition of an estimated liability.

b. Incorrect. Off-balance-sheet financing is the term used when a real economic liability is not reflected on the balance sheet.

c. Incorrect. You would have to record pension income/expense as well.

d. Correct. All of the above are true and apply.

3. a. Incorrect. The liability does not have to be immediately recognized in its entirety.

b. Correct. The total liability/expense can be amortized over time.

c. Incorrect. A PSC does not always apply; it is dependent on what is negotiated.

d. Incorrect. The pension liability increases with an increase in benefits.

4. a. Incorrect. The difference between the expected and actual return on plan assets can be unfavorable or favorable.

b. Incorrect. Experience gains or losses are attributable to such factors as employee turnover.

c. Correct. The SFAS No. 87 1x net unrecognized transition obligation/asset is an allowable delayed recognition item.

d. Incorrect. Income/expense that has delayed recognition must follow guidelines and is not a matter of preference.

5. a. True. Sarbanes-Oxley calls for executives and directors to become more financially sophisticated.

strategic FINANCE SELF-STUDY QUIZ: Final Test—June 2004

Please circle your answer for each question

It's Time to Get Rid of LIFO Conformity (p. 43)

Field of Study: ACCOUNTING — Level: Intermediate

1. The "Norwalk Agreement," announced October 29, 2002:

a. Was a pledge between the FASB and the IASB to work toward convergence of U.S. and international accounting standards.

b. Abolished LIFO for companies reporting under international standards.

c. Permitted LIFO as an "allowed alternative" under international standards.

d. Proposed the use of a hybrid LIFO/FIFO method under international standards.

2. Which of the following statements is false with respect to LIFO inventory valuation?

a. LIFO is a practical compromise that fails to tell the full story about inventory management activities.

b. LIFO is defensible because of the useful information it provides to capital markets.

c. The acceptability of LIFO was, and still is, grounded in its favorable impact on tax liabilities.

d. LIFO fails to report replacement value as the cost of goods sold when inventory is liquidated.

3. Which of the following statements about the LIFO conformity rule is false?

a. History shows that the motive was simply to restrict the number of LIFO adoptions.

b. It requires taxpayers who use LIFO for tax purposes to also use it for financial reporting purposes.

c. The rule requires managers to choose between paying fewer taxes and reporting more complete (and usually higher) profits on their income statements.

d. The rule limits the use of LIFO to those situations where the actual flow of inventory conforms to a last-in, first-out pattern.

4. If a company buys an item for $200 and sells it for $300, what would be the income under FIFO and under LIFO, respectively, if the item were replaced at a cost of $260?

a. $100 and $40. **b.** $100 and $100.

c. $40 and $40. **d.** $40 and $100.

5. Which of the following is false with respect to the replacement value approach to measuring income?

a. Accountants apply a cash-in/cash-out concept to assess management performance by comparing the cash that flows in from selling items with the cash that subsequently flows out to replace them.

b. It calls for a company's income statement to report "value of goods sold" instead of "cost of goods sold."

c. A full-scale replacement value implementation leads to reporting realized holding gains equal to the difference between the wholesale value at the time of sale and the original cost.

d. The financial statements will appear the same as they would under LIFO.

Implementing Strategy (p. 48)

Field of Study: MANAGEMENT — Level: Basic

6. Key to effecting strategic changes to a company is:

a. Eliminating those employees who oppose change.

b. Dedication of lower-level managers to the status quo.

c. Developing a corporate culture that accepts change.

d. The quality of the interim transitional chairman during the change.

7. The success of a strategic implementation is dependent on:

a. Clearly defined goals and objectives at each level in the organization.

b. Management's ability to convince stockholders that implementation is proceeding rapidly.

c. Obtaining qualified outside consultants for each department of the company.

d. Making a financial person responsible for the total implementation.

8. Communication, or the sharing of information, differs from engagement in that engagement is

a. Not a part of the communication process.
b. A physical means of gaining control.
c. Direct dialogue producing active participants in the change process.
d. None of the above, since communication and engagement are the same.

9. A major reason some strategy implementations fail is:
a. The organization was paralyzed by planning the project.
b. The SEC guidelines weren't followed.
c. Strict adherence to the project timetable.
d. The strategic planning process was too limited.

10. Assessing performance during and after implementation requires:
a. Development of appropriate control systems to measure progress in critical areas.
b. Communication of standards of performance measures and progress toward them.
c. Fixing responsibility at each level in the implementation processes. **d.** All of the above.

Get Ready! (p. 54)

Field of Study: MANAGEMENT — Level: Intermediate

11. GAAP pension expense (and operating income) are:
a. Not impacted by actual results on plan assets but by the expected results.
b. Impacted by actual results on plan assets but not by the expected results.
c. Always impacted by actual results and expected results.
d. Not impacted by either actual or expected results.

12. The key assumptions factored into calculating GAAP pension expense are:
a. Discount rate.
b. Discount rate and rate of return on plan assets.
c. Rate of return on plan assets and rate of increase for employee compensation.
d. Discount rate, rate of return on plan assets, and rate of increase for employee compensation.

13. SFAS No. 87 states that if the fair value of the plan assets is less than the ABO (based on current salary levels, not expected future salary levels at retirement), then the plan is considered significantly underfunded, and a minimum liability must be calculated and recorded on the company's balance sheet. True or False

14. Pension expense is included with _________expenses, and the biggest portion is almost always the interest cost.
a. Operating **b.** Financing
c. Extraordinary items **d.** Any of the above

15. Companies may increase/decrease the
a. Rate of expected return only once every two years.
b. Rate of expected return only once a year.
c. Rate of expected return frequently but only when indicators suggest such a change is legitimate.
d. Rate of expected return as frequently as they wish since it is hypothetical anyway.

I have read the articles in *Strategic Finance* upon which the questions are based and have personally prepared the answers without the assistance of any other person.

Signature ______________________ Date ______________

Print Name ______________________ Member Number ____________

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