

CMA USA Part 1

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1. **Required:**

SmallParts is a manufacturer of metal washers, screws, and other parts required in the manufacture of various handmade craft and novelty items. The firm has the ability to custom make virtually any small part, provided the client is able to provide SmallParts with the dimensions and tolerance required of the product. Because of its niche in the market, SmallParts has over 1,000 clients. Unfortunately, many of its small business clients eventually merge or cease operations. One of the company's biggest challenges is the return of shipped product. Usually, this is because the small business client has ceased operations. While most of the product is custom made, SmallParts has found that much of it can be sold to other clients for adapted use. The company's accountant is reviewing the company's internal controls and financial accounting procedures, in particular, with respect to inventory.

Currently, SmallParts has one salesperson responsible for marketing returned product. This salesperson has exclusive and total control over the returned product including processing of sales terms, billing, and collection.

1. Identify and describe the three objectives of a system of internal control.
2. Identify and explain three ways that the procedure for handling returned product violates the internal control system of segregation of duties.
3. Identify four functional responsibilities within an organization that should be separated. Explain why these responsibilities should be separated.
4. Identify and describe three ways that SmallParts can provide for better internal control over its inventory of returned product.

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6. **Required:**

Plymouth Company has two departments: Machining and Assembly. The following estimates were made for the first quarter of 20X7:

	Machining	Assembly
Support costs	\$440,000	\$1,360,000
Direct labor hours	45,000	80,000
Number of machine hours	25,000	20,000

A single predetermined cost driver rate based on total plant direct labor hours is

A. \$14.40 per direct labor hour.

B. \$17 per direct labor hour.

C. \$9.78 per direct labor hour.

D. \$40 per direct labor hour.

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