

FINAL TERM EXAMINATION

FIN621- Financial Statement Analysis (Session - 1)

: 90 min

Marks: 69

Question No: 1 (Marks: 1) - Please choose one

Which one of the following is **NOT** a type of adjusting entries?

- ▶ Entries to record accrued revenues
- ▶ Entries to record accrued expenses
- ▶ Entries to distribute un-earned revenue

▶ **Entries to record revenues**

(Handout page 29)

Question No: 2 (Marks: 1) - Please choose one

Which one of the following statements is **TRUE** regarding distributions to stockholders?

- ▶ The payment of dividends is not directly related to the profits of a given period
- ▶ Shareholders can individually decide on their distributions

► **To receive a corporate dividend, stock must be owned on the date of declaration**

► Corporate dividends reduce contributed capital and therefore, stockholders' equity

Question No: 3 (Marks: 1) - Please choose one

Cash flow relating to investing activities does **NOT** present the cash effects of which of the following?

► Plant assets

► **Intangible assets**

► Investments

► Debt financing

Question No: 4 (Marks: 1) - Please choose one

Office supplies are purchased on account. The company uses a perpetual inventory system. What is the correct journal entry for this purchase of office supplies?

► Debit - Purchases; Credit - Cash

► Debit - Merchandise Inventory; Credit - Cost of Goods Sold

► **Debit - Office Supplies; Credit - Accounts Payable**

► Debit - Merchandise Inventory; Credit - Accounts Payable

Question No: 5 (Marks: 1) - Please choose one

Which of the following is **NOT** true about the specific identification method?

► It requires a very detailed physical count

► This method allows management to easily manipulate ending inventory cost

► This method is very hard to use on interchangeable goods

► This results in an overstated inventory account during the period of inflation

http://en.wikipedia.org/wiki/Specific_Identification

Question No: 6 (Marks: 1) - Please choose one

If sales revenues are Rs. 400,000, cost of goods sold is Rs. 310,000, and operating expenses are Rs. 60,000, what is the gross profit?

► Rs. 30,000

► **Rs. 90,000**

► Rs. 340,000

► Rs. 400,000

G.P= SALES – C.O.G.S

= 400,000-310,000= 90,000

Question No: 7 (Marks: 1) - Please choose one

Which of the following statements best describes the nature of depreciation?

► Regular reduction of asset value to correspond to the decline in market value as the asset ages

► A process of correlating the book value of an asset with its gradual decline in physical efficiency

► Allocation of the cost in a manner that will ensure that plant and equipment items are not carried on the balance sheet at amounts in excess of net realizable value

► Allocation of the cost of a plant asset to the periods in which benefits are received

http://docs.google.com/viewer?a=v&q=cache:-M6JW9lCKWkJ:belkcollegeofbusiness.uncc.edu/bap/2121%2520Practice%2520Exam%25201%2520MC.doc+Which+of+the+following+statements+best+describes+the+nature+of+depreciation?&hl=en&gl=pk&pid=bl&srcid=ADGEESgUIDfGF7ZG_rAatYOPcOo

[z0FQCFbaGSpuuOD6M_o5d19iks4bQs9kr9saHXkT3OVkl6Mcjsg1TWeXbvqBRKfJ_U4ISsN27HbuQPhA7DZgbjuwRSNoBvBPLvsr8YkyFA7yEiJ6m&sig=AHIEtbQJu2DeREaNvrCjyVDK2pOaLAcUvw&pli=1](http://www.chegg.com/homework-answers/question-answer/z0FQCFbaGSpuuOD6M_o5d19iks4bQs9kr9saHXkT3OVkl6Mcjsg1TWeXbvqBRKfJ_U4ISsN27HbuQPhA7DZgbjuwRSNoBvBPLvsr8YkyFA7yEiJ6m&sig=AHIEtbQJu2DeREaNvrCjyVDK2pOaLAcUvw&pli=1)

<http://studentoffortune.com/question/376489/ACC400-wk2/644730-CH9%20Plant%20%26%20Intangible%20Assets.pdf>

Question No: 8 (Marks: 1) - Please choose one

Warner Corporation reported net income in excess of its net cash flow from operations. A possible explanation of this difference is:

- ▶ Depreciation expense
- ▶ **Non operating gains**
- ▶ A decrease in income tax rates
- ▶ A decrease in accounts receivable over the period

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html

Question No: 9 (Marks: 1) - Please choose one

In a statement of cash flows, the acquisition of land by issuing capital stock:

- ▶ Is not shown at all, since no cash was received or disbursed
- ▶ Is shown as an investing activity
- ▶ Is shown as a financing activity
- ▶ **Is shown in a supplementary schedule as a non-cash investing and financing transaction**

<http://www.scribd.com/doc/22806908/Cash-Flows>

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html

Question No: 10 (Marks: 1) - Please choose one

Which of the following opinions state that the financial statements do not present fairly the financial position, results of operations etc, in conformity with GAAP?

- ▶ Unqualified opinion
- ▶ Qualified opinion
- ▶ **adverse opinion**
- ▶ Disclaimer of opinion

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Question No: 11 (Marks: 1) - Please choose one

Which one of the following is **NOT** a limitation of financial statements?

- ▶ They always present past
- ▶ They always present the monetary terms
- ▶ **They help in assessment of future profitability**
- ▶ They give no information about management and employee relations

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Question No: 12 (Marks: 1) - Please choose one

Which of the following business owner is personally liable for its debts?

- ▶ Corporations
- ▶ **Sole proprietorship**
- ▶ General partnership
- ▶ Limited liability company

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Question No: 13 (Marks: 1) - Please choose one

Which of the following characteristics is **NOT** generally regarded as right of common shareholders?

- ▶ Preemptive right
- ▶ Voting rights

▶ Preference in liquidation

- ▶ Transferability of shares

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%2014%20-%20multiple%20choice.htm>

Question No: 14 (Marks: 1) - Please choose one

What would be the journal entry to record the issue of 1,000 shares of Rs. 1 par-value common stock, which is issued for Rs. 4 per share?

- ▶ Debit Cash 4,000; Credit Common Stock 4,000

▶ Debit Cash 4,000; Credit Common Stock, 1,000, Credit Paid-in-Capital in Excess of Par 3,000

- ▶ Debit Cash 4,000; Credit Common Stock, 1,000, Credit Retained Earnings 3,000
- ▶ Debit Cash 4,000, Debit Paid-in-Capital in Excess of Par 3,000; Credit Common Stock 4,000

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%2014%20-%20multiple%20choice.htm>

Question No: 15 (Marks: 1) - Please choose one

Suppose that an investor buys shares for Rs. 15 per share from a company whose stock's par value is stated at Rs. 10 per share, then what will be the value of paid in capital for each share sold?

- ▶ Rs. 25

► **Rs. 5**

► Rs. 20

► Rs. 30

<http://www.scribd.com/doc/20583434/29-Stocks-and-Shares>

Question No: 16 (Marks: 1) - Please choose one

In the vertical analysis of income statement, all the accounts are expressed as a percentage of which of the following?

► **Net sales**

► Gross sales

► Net income

► Total expenses

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When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total.. The total used by the analyst on the income statement is net sales revenue,

Question No: 17 (Marks: 1) - Please choose one

The changes in the financial statement items from a base year to following years are often expressed as which of the following?

► **Trend percentages**

► Component percentages

► Common percentages

► Both trend and component percentages

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Trend percentages/ Horizontal Analysis/ Index Analysis: This analysis considers changes in

items of financial statement from a base year to the following years to show the direction of change. This is also called horizontal analysis. In this, the figures of various years are placed side by side in adjacent columns in the form of comparative financial statements.

Question No: 18 (Marks: 1) - Please choose one

Which of the following indicates the relative size of each item included in a total?

- ▶ Trend percentages
- ▶ **Component percentages**
- ▶ Common percentages
- ▶ Both trend and component percentages

(page 128)

Component percentages/ Vertical Analysis/ Common- Size Analysis: This type of analysis indicates the relative size of each item in the Financial Statements as a percentage of the total of that Statement i.e. Total Assets or total Liabilities & Shareholders equity in Balance Sheet and Sales in Income Statement.

Question No: 19 (Marks: 1) - Please choose one

If a firm has Rs. 100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital?

- ▶ Rs. 0
- ▶ **Rs. 100**
- ▶ Rs. 200
- ▶ Rs. 1,000

Question No: 20 (Marks: 1) - Please choose one

A company can improve (lower) its debt-to-total asset ratio by doing which of the following?

- ▶ Borrow more
- ▶ Shift short-term to long-term debt
- ▶ Shift long-term to short-term debt

▶ **Sell common stock**

REF <http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question No: 21 (Marks: 1) - Please choose one

Krisle and Kringle's debt-to-total assets ratio is 4%. What is its debt-to-equity ratio?

- ▶ 2%
- ▶ 7%
- ▶ **6%**
- ▶ 3%

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Since the debt-to-total assets ratio is .4, then equity-to-total assets ratio is .6. The ratio of debt to equity is then $.4/.6$ or $.667$ (66.7%).

Question No: 22 (Marks: 1) - Please choose one

Earnings per share, return on sales, and return on equity are all examples of which of the following?

- ▶ Leverage ratios
- ▶ Liquidity ratios
- ▶ Turnover ratios

▶ **Profitability ratios**
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Question No: 23 (Marks: 1) - Please choose one

Which of the following could account for a company's gross profit ratio increasing from one period to the next?

► An increase in the cost of sales which has not been accompanied by an increase in the selling price of goods sold

► **An increase in the selling price of goods sold which has not been accompanied by an increase in the cost of sales**

► A change in the mix of goods sold so that lower profit margin goods take a greater proportion of total sales

► A change in stock valuation method at the year end which leads to a decrease in the closing stock figure

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203069.cw/index.html

Question No: 24 (Marks: 1) - Please choose one

Which of the following is **MOST** likely to offer you the highest rate of return together with the highest risk?

► Cash in a building society deposit account

► Preference shares

► **Ordinary shares**

► Government bonds

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_8/145/37242/9534033.cw/content/index.html

Ordinary shares do not offer a pre-determined return - the dividend paid is variable and depends on a number of factors including the company's cash position. Moreover the price is determined by the laws of supply and demand and can go down as well as up. So they carry high risk in return for which shareholders demand a high return, in the form of income and capital growth. Preference shares are similar except that they offer a fixed dividend which is paid before ordinary shareholders stand to receive anything (so the term 'preferred'). Furthermore, if the company is liquidated they normally rank above ordinary shares in any payout. So

they are less risky and offer lower but more stable returns. Building society cash deposits and government bonds are considered almost risk free (governments rarely go bankrupt!) and consequently offer low returns.

Question No: 25 (Marks: 1) - Please choose one

Assume that a company total paid in capital of Rs. 57,160,000, Preferred shares Rs. 12,000,000 and commons tock Rs. 14,000,000. Calculate the amount of total legal capital of the company.

► Rs. 26,000,000

► Rs. 2000,000

► **Rs. 45,160,000**

► Rs. 43,160,000

paid up capital - preferred shares

57,160,000 - 12,000,000

45,160,000

Question No: 26 (Marks: 1) - Please choose one

ABC Company has cumulative preferred stock and three years of dividends are owed. Using the following information, calculate the book value per share of the preferred stock.

9% preferred stock, Rs. 100 par, 300 shares authorized and issued	Rs. 3,000
Call price	Rs. 109
Retained Earnings	Rs. 28,000

► **Rs. 109**

► Rs. 202

► Rs. 211

► Rs. 118

Book value/share: preferred stock

= call price/redemption value / Number of preferred share

$$300 \times 109 = 32700$$

$$32700 / 300 = 109$$

Question No: 27 (Marks: 1) - Please choose one

A company has a cost of goods sold of Rs. 530,000; the beginning inventory is Rs. 120,000, and ending inventory is Rs. 180,000. Calculate the number of days to sell the inventory. (Round the figures to the nearest whole)

► 83 days

► 125 days

► **104 days**

► 100 days

Average inventory = opening inv + ending inv / 2

$$= 120000 + 180000 / 2$$

$$= 150000$$

Inventory turnover = CGS / average inventory

$$= 530,000 / 150000$$

$$= 3.53$$

Number of day sell the inventory = 365 / 3.53

Question No: 28 (Marks: 1) - Please choose one

Which one of the following statement indicates the Inventory turnover ratio?

► How quickly company prepared its inventory

- ▶ How quickly company converts its inventory into cash
- ▶ How quickly company purchases its inventory
- ▶ **How quickly company sells its inventory**

Question No: 29 (Marks: 1) - Please choose one

Operating cycle belongs to which group of ratios?

- ▶ Leverage ratios
- ▶ Liquidity ratios
- ▶ Profitability ratios

▶ **Activity ratios**

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Question No: 30 (Marks: 1) - Please choose one

Which of the following is the ideal position of debt ratio?

- ▶ 30%
- ▶ **60%**
- ▶ 50%
- ▶ 45%

Question No: 31 (Marks: 1) - Please choose one

What will be effect of purchase of inventory on open account on quick ratio of the company?

- ▶ Increase
- ▶ **Decrease**
- ▶ No effect

- ▶ Can not be found from the given information

Question No: 32 (Marks: 1) - Please choose one

What will be the effect on the inventory turnover ratio of the company, if it changed from FIFO to LIFO during the period of inflation?

- ▶ **Increase**

- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

Question No: 33 (Marks: 1) - Please choose one

What will be the effect on the EPS of the company, if it paid stock dividend on common stock?

- ▶ Increase
- ▶ Decrease
- ▶ **No effect**

- ▶ Can not be found from the given information

Question No: 34 (Marks: 1) - Please choose one

Which of the following is essential to conduct business activity, particularly in times of adversity?

- ▶ Profitability
- ▶ **Liquidity**
- ▶ Stability
- ▶ Solvency

Question No: 35 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill for services already received will result in which of the following?

- ▶ An overstatement of assets
- ▶ An overstatement of liabilities
- ▶ **An overstatement of equity**
- ▶ An understatement of assets

Question No: 36 (Marks: 1) - Please choose one

Which of the following would be the proper journal entry to record Rs. 1,000 of Dividends paid by ABC Corporation?

- ▶ **Debit Dividends 1,000; Credit Cash 1,000**
- ▶ Debit Accounts Payable 1,000; Credit Cash 1,000
- ▶ Debit Dividends Expense 1,000; Credit Cash 1,000
- ▶ Debit Dividends Expense 1,000; Credit Service Revenue 1,000

Question No: 37 (Marks: 1) - Please choose one

How does the acid test ratio differ from the current ratio?

- ▶ It is concerned with future cash flows rather than historical cash flows
- ▶ It does not differ from the current ratio
- ▶ **It excludes the value of stocks**
- ▶ It excludes the trade debtors

Question No: 38 (Marks: 1) - Please choose one

Which of the following provides the basis for the trial balance?

- ▶ Income statement

► Statement of cash flow

► **Ledger**

► Adjusting entries

Question No: 39 (Marks: 1) - Please choose one

Which of the following is **NOT** normally required for revenue to be recognized according to the revenue principle for accrual basis accounting?

► The price is fixed or determinable

► Services have been performed

► **Cash that has already been collected**

► Evidence of an arrangement for customer payment exists

http://books.google.com.pk/books?id=WH95z-MY5LEC&pg=PA159&dq=is+NOT+normally++required++for++revenue++to++be++recognized+according+to+the+revenue+principle+for+accrual+basis+accounting?&hl=en&ei=-6LxTNWDCYuPcd3lmLoK&sa=X&oi=book_result&ct=result&resnum=3&ved=0CDAQ6AEwAg#v=onepage&q&f=false

http://books.google.com.pk/books?id=fOAKexV5AtUC&pg=PA108&lpg=PA108&dq=is+NOT+normally++required++for++revenue++to++be++recognized+according+to+the+revenue+principle+for+accrual+basis+accounting%3F+The+price+is+fixed+or+determinable+Services+have+been+performed+Cash+that+has+already++been+collected+Evidence+of+an+arrangement+for+customer+payment+exists&source=bl&ots=uqShdAyc2K&sig=fy6Rh8BhBIPsrUGHYlWSDlgLF98&hl=en&ei=bqj8TJm3F4blrAehyZT_Bw&sa=X&oi=book_result&ct=result&resnum=4&ved=0CCoQ6AEwAw#v=onepage&q&f=false

Question No: 40 (Marks: 1) - Please choose one

If monthly financial statements are desired by management then:

▶ Journalizing and posting adjusting entries must be done each month

▶ Journalizing and posting closing entries must be done each month

▶ Monthly financial statements can be prepared from worksheets; adjustments and closing entries need not be entered in the accounting records

▶ Adjusting and closing entries must be entered in the accounting records before preparation of interim financial statements

Question No: 41 (Marks: 1) - Please choose one

ABC Company sold a plant asset that originally cost Rs. 50,000 for Rs. 22,000 cash. If the company correctly reports a Rs. 5,000 gain on this sale, the accumulated depreciation on the asset at the date of sale must be:

▶ Rs. 33,000

▶ Rs. 28,000

▶ Rs. 27,000

▶ Rs. 23,000

Book value = cash -gain

= 22000-5000

= 17000

Depreciation = 50000-17000

= 33000

Question No: 42 (Marks: 1) - Please choose one

Which of the following statements is **CORRECT** regarding depreciation methods?

- ▶ Accumulated depreciation represents a fund being accumulated for the replacement of assets
- ▶ The cost of a machine includes the cost of repairing damage to the machine during the installation process
- ▶ A company may use different depreciation methods in its financial statements and its income tax returns
- ▶ The use of an accelerated depreciation method causes an asset to wear out more quickly than does the straight line method

Question No: 43 (Marks: 1) - Please choose one

The actions taken by the management to make company appear as strong as possible in its financial statements is termed as which of the following?

- ▶ Window dressing
- ▶ Understanding
- ▶ Comprehensiveness
- ▶ Materiality

Firms can employ “window dressing” techniques to make their financial statements look stronger.

Question No: 44 (Marks: 1) - Please choose one

ABC Company selected ‘Abdullah and Ahmad Chartered Accountants’ as its auditors / accountancy firm. After audit the auditors stated company’s audit report as:

We have examined the accounts of ABC Company up to the year ended 30th June, 2009, and other record based on these accounts and we got all the information required by us. In our opinion the financial statements and the accounts on which they are based have been prepared in conformity with GAAP and present a true and fair position of the affairs of ABC Company.

What do you think the above case is which type of following audit reports?

▶ Qualified Audit Opinion

▶ **Un-qualified Audit Opinion**

▶ Adverse Audit Opinion

▶ Disclaimer Audit Opinion

Question No: 45 (Marks: 1) - Please choose one

All of the following users are very much concerned with the ratio analysis EXCEPT?

▶ Credit analyst, including banks who want to know the credibility of company

▶ Bond rating companies, who analyze ratios to help ascertain a company's ability to pay its debts

▶ **Customers, who want to know the designs and quality of the products offered**

▶ Managers, to analyze, control, and thus improve their working operations

Ratio analysis is used by three main groups: (1) managers, who employ ratios to help analyze, control, and thus improve their firms' operations; (2) credit analyst, including bank loan officers and bond rating analysts, who analyze ratios to help ascertain a company's ability to pay its debts; and (3) stock analyst, who are interested in a company's efficiency, risk, and growth prospects.

Question No: 46 (Marks: 1) - Please choose one

In order to know the percentage of assets financed by creditors, which of the following ratio is calculated?

▶ **Debt Ratio**

- ▶ Equity Ratio
- ▶ Operating credit Ratio
- ▶ Quick Ratio

The creditors' equity ratio equals total liabilities divided by total assets. This reflects the percentage of assets financed by creditors. In the event of corporate liquidation, creditors are paid before

Question No: 47 (Marks: 1) - Please choose one

Which of the following statement is the **LEAST LIKELY** to be correct?

▶ A firm that has a high degree of business risk is less likely to want to incur financial risk

▶ There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm

▶ Financial ratios are relevant for making internal comparisons

▶ It is important to make external comparisons or financial ratios

A firm that has a high degree of business risk is much more likely to use equity financing because there is no contractual responsibility to make interest payments.

Question No: 48 (Marks: 1) - Please choose one

Which of the following is **LEAST** likely to be presented in Notes to financial statements of a firm?

▶ Significant pending lawsuits

▶ Methods of Cost flow assumptions

▶ A firm's capital resource needs and liquidity

▶ Sales by region or business segment

Solved By
Fariha Maqbool, Anam Aslam
Ahmed and Kamran Haider

FINAL TERM EXAMINATION

Spring 2009

FIN621- Financial Statement Analysis (Session - 2)

Question No: 1 (Marks: 1) - Please choose one

The process of recording the economic effects of business transactions in a book of original entry is known as which of the following?

Double entry system

Debit

Journalizing

Posting

Question No: 2 (Marks: 1) - Please choose one

An entry that affects more than one accounts is known as _____.

Journal entry

Compound entry

Adjusting entry

Reversing entry

Question No: 3 (Marks: 1) - Please choose one

In which of the following forms of Income Statement, the total of all expenses is deducted from the total of all revenues?

Multiple-step form

Account form

Report form

Single-step form

A single-step income statement for a merchandising company lists net sales under revenues and the cost of goods sold under expenses.(PAGE 73)

Question No: 4 (Marks: 1) - Please choose one

Which one of the following statements is TRUE regarding distributions to stockholders?

The payment of dividends is not directly related to the profits of a given period

Shareholders can individually decide on their distributions

To receive a corporate dividend, stock must be owned on the date of declaration

Corporate dividends reduce contributed capital and therefore, stockholders equity

Question No: 5 (Marks: 1) - Please choose one

All of the following are true regarding the financing activity section of the cash flow statement EXCEPT:

Financing activities require analysis of long-term liability and shareholders' equity accounts

The ability to issue large quantities of common shares usually signals investor confidence in the future of the company

Excessive borrowing has been the downfall of many companies

The declaration and payment of a large cash dividend may signal an emergency

http://wps.prenhall.com/ca_ph_horngren_accounting_7/60/15481/3963284.cw/content/index.html

Question No: 6 (Marks: 1) - Please choose one

The indirect method shows the reconciliation from net income to operating cash flows. Select the adjustment that is subtracted during the reconciliation.

Revenues earned and received in cash.

Non-cash expenses (expenses incurred but not paid) reported on the income statement one example is amortization expense.

Non-cash revenues (revenues earned but payment not yet received) reported on the income statement

A decrease in Accounts Receivable or another non-cash current asset

http://wps.prenhall.com/ca_ph_horngren_accounting_7/60/15481/3963284.cw/content/index.html

Question No: 7 (Marks: 1) - Please choose one

Which of the following would NOT be the cash inflow for the business?

Sale of land for cash

Issuance of long term bonds

The sale of common stock

Retirement of long term debt

Question No: 8 (Marks: 1) - Please choose one

Under which cost flow assumption, the ending inventory is composed of the earliest purchased merchandise?

FIFO

LIFO

Average cost

Specific identification

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter8/online_tutorial_quiz.html

Question No: 9 (Marks: 1) - Please choose one

Which of the following would affect the gross profit rate if sales remain constant?

An increase in advertising expense

A decrease in depreciation expense

An increase in cost of goods sold

A decrease in insurance expense

Question No: 10 (Marks: 1) - Please choose one

Nishat Mills Ltd. is a rapidly growing company that acquires more equipment every year. The company uses straight line depreciation in its financial statements and MACRS in its tax returns.

Which of the following statements is NOT correct?

Using straight line depreciation in the financial statements instead of accelerated method increases the company's reported net income

Using straight line depreciation in the financial statements instead of accelerated method increases the company's annual net cash flow

Using MACRS instead of straight line in income tax returns increases company's net cash flow

As long as the company keeps growing, it will report more depreciation in its income tax returns each year than it does in its financial statements

Question No: 11 (Marks: 1) - Please choose one

A statement of cash flows would be least useful in answering which of the following questions?

What was the average balance in the Cash account during the period?

Did operating activities result in a positive or negative net cash flow?

How much cash was provided or used by financing activities during the period?

Were cash dividends paid by the company more or less than the net cash flow from operations?

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html)

[hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html)

Question No: 12 (Marks: 1) - Please choose one

Which of the following is NOT a limitation of financial statements for an investor?

It provides complete basis for the analysis of a company

Past financial performance does not signify what will happen with the investor in future

The financial statements are useless without the notes to the financial statements

Unless the statements are audited their authenticity is under doubt
<http://www.scribd.com/doc/15937179/Finanacial-Accounting>

Past financial performance does not signify what will happen with the investor in future

•The financial statements are useless without the notes to the financial statements, which are complex.

•Unless the statements are audited their authenticity is under doubt and they may be misleading and fraudulent.

•Financial statements reflect the recorded facts and figures. Hence these are not useful for control purpose.

Question No: 13 (Marks: 1) - Please choose one
Which of the following is NOT an advantage of a Sole proprietorship?
Easy to form and wind up
Direct motivation
Better control
Limited liability

Question No: 14 (Marks: 1) - Please choose one
Which of the following is a type of preferred stock that entitles the holder to a fixed dividend and, in addition, to the right to get any surplus profits after payment of agreed levels of dividends to holders of common stock?

In arrears preferred shares
Call able preferred shares
Cumulative preferred shares
Participating preferred shares
<http://www.qfinance.com/dictionary/participating-preferred-stock>

Question No: 15 (Marks: 1) - Please choose one
The current ratio will be excessively very high in which of the following inventory costing methods?
FIFO
LIFO
Average cost
Specific identification

Question No: 16 (Marks: 1) - Please choose one

If a firm has Rs. 100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital?

Rs. 0

Rs. 100

Rs. 200

Rs. 1,000

Question No: 17 (Marks: 1) - Please choose one

To financial analysts, "working capital" means the same thing as which of the following?

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Question No: 18 (Marks: 1) - Please choose one

Which of the following could account for a company's gross profit ratio increasing from one period to the next?

An increase in the cost of sales which has not been accompanied by an increase in the selling price of goods sold

An increase in the selling price of goods sold which has not been accompanied by an increase in the cost of sales

A change in the mix of goods sold so that lower profit margin goods take a greater proportion of total sales

A change in stock valuation method at the year end which leads to a decrease in the closing stock figure

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203069.cw/index.html

Question No: 19 (Marks: 1) - Please choose one

Nestle Pakistan Limited is an example of which of the following types of businesses?

Manufacturing

Service

Merchandise

Whole seller

Question No: 20 (Marks: 1) - Please choose one

Which of the following represents the long term debt paying ability of the company as they become due?

Liquidity

Solvency

Profitability

Stability

(page 136)

Question No: 21 (Marks: 1) - Please choose one

Which group of ratios relates the financial charges of a firm to its ability to service them?

Debt ratios

Coverage ratios

Profitability ratios

Activity ratios

(page 137)

Coverage Ratio

Coverage ratios are designed to relate the financial charges of a firm to its ability to service, or cover, them. One of the most traditional coverage ratios is the interest coverage ratio, or times interest earned

Question No: 22 (Marks: 1) - Please choose one

In isolation, which of the following is TRUE about a financial ratio?

Useless piece of information

Useful piece of information

Useful only for past performance

Useful only for future predictions

<http://www.finpipe.com/equity/finratan.htm>

In isolation, a financial ratio is a useless piece of information. In context, however, a financial ratio can give a financial analyst an excellent picture of a company's situation and the trends that are developing.

Question No: 23 (Marks: 1) - Please choose one

Ames Corporation's net accounts receivable were Rs. 750,000 on December 31, 20X1, and Rs.1,250,000 on December 31, 20X2. Net cash sales for 20X2 were Rs. 3,300,000. The accounts receivable turnover ratio for 20X2 was 16.

What were the total net sales for 20X2?

Rs. 12,800,000

Rs. 16,000,000

Rs. 16,100,000

Rs. 19,300,000

Calculation:

Receivable turnover = net credit sales/Avg.receivable

16 = net credit sales/1000,000

16*1000,000=net credit sales

16,000,000= net credit sales

Question No: 24 (Marks: 1) - Please choose one
How is the accounts receivable turnover ratio calculated?

Net credit sales / Average total assets

Net credit sales / Operating income

Net credit sales / Average accounts receivables

Net credit sales / Cost of goods sold

Question No: 25 (Marks: 1) - Please choose one
Company A makes an operating profit margin of 5 % on sales of Rs. 2.5 million.
Company B has sales that are 20% higher than Company A and achieves an operating profit margin of 3.5%. Which company makes the highest operating profit?

Company B

Company A

Both make the same operating profit

Not possible to calculate

Calculation

**Company A operating profit margin = $2500,000 \times 5 / 100$
= 125000**

**company B = $3,000,000 \times 3.5 / 100$
= 105000**

Question No: 26 (Marks: 1) - Please choose one
The DuPont Approach breaks down the earning power on shareholders' equity (ROE) as which of the following?

Net profit margin × Total asset turnover × Equity multiplier

Total asset turnover × Gross profit margin × Debt ratio

Total asset turnover × Net profit margin

Total asset turnover × Gross profit margin × Equity multiplier

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6679/1709848.cw/content/index.html

Question No: 27 (Marks: 1) - Please choose one
Which of the following statement best describes the operating profit margin?

It shows what portion of profits are being distributed to shareholders

It shows what return is being made on assets employed in the business

It shows how well a company is controlling its costs, including overheads

It shows how efficiently a company is turning profits into cash

<http://books.google.com.pk/books?id=PJYDfJ9o93UC&pg=PA48&dq=Which+of+the+following+statement+best+describes+the+operating+profit+margin%3F+It+shows+what+portion+of+profits+are+being+distributed+to+shareholders+It+show+s+what+return+is+being+made+on+assets+employed+in+the+business+It+show+s+how+well+a+company+is+controlling+its+costs,+including+overheads+It+sho+ws+how+efficiently+a+company+is+turning+profits+into+cash&hl=en&ei=ZgEuT>

[d2OK4PKswaH24zeBw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCQQ6AEwAA#v=onepage&q&f=false](https://www.studocu.com/row/document/american-international-university-bangladesh/financial-accounting/d2OK4PKswaH24zeBw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCQQ6AEwAA#v=onepage&q&f=false)

Question No: 28 (Marks: 1) - Please choose one
Return on Sales is also known as which of the following?

Gross profit margin

Operating profit margin

Return on total assets

Return on investment

ROS is also known as a firm's "operating profit margin". PAGE#144

Question No: 29 (Marks: 1) - Please choose one
Which of the following is NOT a profitability measure?

Accounts receivable turnover ratio

Return on total assets

Return on sales

Dividend yield

(page 138 and 142)

Question No: 30 (Marks: 1) - Please choose one
Which of the following is formula to measure the return on total assets?

Average total assets by operating income

Average total assets by net income

Operating income by average total assets

Net income by average total assets

(page 142)

Return on total assets = Operating income / Average assets

Question No: 31 (Marks: 1) - Please choose one
Which of the following is NOT part of additional paid-in-capital of the company?

Preferred stocks

Common stocks

Retained earnings

Dividends distributed

(page 148)

Question No: 32 (Marks: 1) - Please choose one
Which of the following options indicate how quickly accounts receivables are converted into cash?

Accounts receivable turnover

Days to collect accounts receivable

Working capital

Total assets turnover

Liquidity of Receivables: It shows how quickly Accounts Receivables are collected i.e. converted into cash. It is determined by Receivable Turnover

Ratio (RTO). It is number of times "Receivables" are converted into cash during the year.

Question No: 33 (Marks: 1) - Please choose one

Which one of the following statement indicates the Inventory turnover ratio?

How quickly company prepared its inventory

How quickly company converts its inventory into cash

How quickly company purchases its inventory

How quickly company sells its inventory

Inventory Turnover Ratio

(ITO). It is the number of times the company sells (turns over) its inventory during the year. PAGE#132

Question No: 34 (Marks: 1) - Please choose one

Assume that a company has current assets of Rs. 60,000, current liabilities of Rs. 35,000 and prepaid expenses of Rs. 5,000. Calculate the quick ratio of the company?

1.57

1.71

1.86

0.58

$$\begin{aligned}\text{Quick ratio} &= \text{CA} - \text{inv} - \text{prepaid exp} / \text{CL} \\ &= 60000 - 5000 / 35000 \\ &= 55000 / 35000 \\ &= 1.57\end{aligned}$$

Question No: 35 (Marks: 1) - Please choose one

What will be the effect on the EPS of the company, if it paid stock dividend on common stock?

Increase

Decrease

No effect

Can not be found from the given information

Question No: 36 (Marks: 1) - Please choose one

What will be the effect of appropriated retained earnings on the rate of return on stockholder's equity?

Increase

Decrease

No effect

Can not be found from the given information

Question No: 37 (Marks: 1) - Please choose one

Which of the following is the basic purpose of an accounting system?

Develop financial statements in conformity GAAP

Provide as much useful information to decision makers as possible

Record changes in the financial position of an entity

Meet an organization's need for accounting information as efficiently as possible

<http://www.quickmba.com/accounting/fin/>

Question No: 38 (Marks: 1) - Please choose one

A complete set of financial statements for Hartman Company, at December 31, 1999, would include each of the following, EXCEPT:

Balance sheet as of December 31, 1999

Income statement for the year ended December 31, 1999

Statement of projected cash flows for 2000

Notes containing additional information that is useful in interpreting the financial Statements

Question No: 39 (Marks: 1) - Please choose one

Which of the following equations properly represents a derivation of the fundamental accounting equation?

Assets + liabilities = owner's equity

Assets = owner's equity

Cash = assets

Assets - liabilities = owner's equity

Question No: 40 (Marks: 1) - Please choose one

Which of the following is TRUE regarding Retained Earnings?

Increased by net income

Increased by revenues

Decreased by dividends declared

Decreased by gains and losses

Question No: 41 (Marks: 1) - Please choose one

What are the effects of an adjusting entry on the financial statements?

Match revenues and expenditures

Increase net income

Increase the accuracy of balance sheet and income statement

Match revenues and assets

Question No: 42 (Marks: 1) - Please choose one

The supplies account has a balance of Rs. 1,500 at year end. The actual amount of supplies in hand at the end of period is Rs. 400. The necessary adjusting entry is:

Debit Supplies on Hand Rs. 1100; Credit Supplies Expense Rs. 1100

Debit Supplies Expense Rs. 400; Credit Supplies on Hand Rs. 400

Debit Supplies Expense Rs. 1100; Credit Supplies on Hand Rs. 1100

Debit Supplies on Hand Rs. 400; Credit Supplies Expense Rs. 400

Solved By
Fariha Maqbool, Anam Aslam
Ahmed and Kamran Haider

FINAL TERM EXAMINATION

Spring 2009

FIN621- Financial Statement Analysis (Session - 2)

Marks: 81

Question No: 1 ____ (Marks: 1) - Please choose one

As transactions and events related to financial resources occur, they are analyzed with respect to their effect on which of the following?

Financial position of the company

Accounting cycle

Trial balance

Liquidity position of the company Question

No: 2 (Marks: 1) - Please choose one

If monthly financial statements are desired by management then:

Journalizing and posting adjusting entries must be done each month

Journalizing and posting closing entries must be done each month

Monthly financial statements can be prepared from worksheets; adjustments and closing entries need not be entered in the accounting records

Adjusting and closing entries must be entered in the accounting records before preparation of interim financial statements

Question No: 3 ____ (Marks: 1) - Please choose one

Which of the following items are NOT added back to the net income figure (which is found on the Income Statement) to arrive at cash flows from operations?

Depreciation

Deferred tax

Amortization

Investments

Question No: 4 ____ (Marks: 1) - Please choose one

Which of the following would be considered as cash flow from investing activities?

Expenditure for sale of plant and equipment

Payments to suppliers

Receipts from sale of goods or services

Proceeds from issuance of long-term debt

Question No: 5 (Marks: 1) - Please choose one

ABC Company has a cost of goods sold of Rs. 500,000. During the year the inventory increased by Rs. 10,000 and accounts payable increased by Rs. 15,000. The interest expense was Rs. 15,000 for the year and dividend of Rs. 11,000 were paid during the year. What would be the cash payments for the purchase of the merchandise?

Rs. 505,000

Rs. 516,000

Rs. 490,000

Rs. 495,000

Question No: 6 __ (Marks: 1) - Please choose one

Which of the following items does not result in an adjustment in the merchandise inventory account under a perpetual system?

A purchase of merchandise

A return of merchandise inventory to the supplier

Payment of freight costs for goods shipped to a customer

Payment of freight costs for goods received from a supplier

http://www.google.com.pk/#sclient=psy&hl=en&q=does+NOT+result+in+an+adjustment+in+the+merchandise+inventory+account+under+a+perpetual+system%3F+%E2%96%BA+A+return+of+merchandise+inventory+to+the+supplier+%E2%96%BA+Payment+of+freight+costs+for+goods+shipped+to+a+customer+%E2%96%BA+Payment+of+freight+costs+for+goods+received+from+a+supplier+%E2%96%BA+A+purchase+of+merchandise&aq=f&aqi=&aql=&oq=&gs_rfai=&pbx=1&fp=977d28a4874662a8

http://webcache.googleusercontent.com/search?q=cache:qBtmRjcH2MoJ:higheredbcs.wiley.com/legacy/college/kimmel/0470087447/self_study/ch05.rtf+Which+of+the+following+items+does+NOT+result+in+an+adjustment+in+the+merchandise+inventory+account+under+a+perpetual+system%3F&cd=2&hl=en&ct=clnk&gl=pk

Question No: 7 __ (Marks: 1) - Please choose one

In a perpetual inventory system, which of the following is NOT part of the series of journal entries made when merchandise is sold on credit?

Credit the Cost of Goods Sold account

Credit the Sales account

Credit the Merchandise Inventory account

Debit the Accounts Receivable account

http://highered.mcgraw-hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html

Question No: 8 (Marks: 1) - Please choose one

Assuming that net purchases cost Rs 250,000 during the year and that closing inventory was Rs 4,000 less than the opening inventory of Rs 30,000, how much was the cost of goods sold?

Rs. 276, 000

Rs. 280,000
Rs. 254,000
Rs. 246,000

Opening inv + purchases – closing inv

30000 + 250000 – 4000

276000

Question No: 9 ____ (Marks: 1) - Please choose one

The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were:

Less than current market value

Greater than cost

Greater than book value

Less than book value

Question No: 10 ____ (Marks: 1) - Please choose one

ABC Company sold a plant asset that originally cost Rs. 50,000 for Rs. 22,000 cash. If the company correctly reports a Rs. 5,000 gain on this sale, the accumulated depreciation on the asset at the date of sale must be:

Rs. 33,000

Rs. 28,000

Rs. 27,000

Rs. 23,000

Book value = cash -gain

= 22000-5000

= 17000

Depreciation = 50000-17000

= 33000

Question No: 11 ____ (Marks: 1) - Please choose one

Which of the following is NOT the part of annual report?

Financial statements

Auditor's report

Five year summary

Future investments report

Annual Report is part of Financial Reporting Process which contains Financial Statements, Notes to financial statements, Auditors' Report, Five-year summary of key financial and non-financial data, and Management's discussion and analysis of operations (MD&A).

Question No: 12 ____ (Marks: 1) - Please choose one

As stated in the audit report, or Report of Independent Accountants, the primary responsibility for a company's financial statements lies with which of the following?

- The owners of the company
- Independent financial analysts
- The auditors

The company's management

Audit of financial statements is independent of the business issuing these. Financial Statements preparation is Management's responsibility

Question No: 13 (Marks: 1) - Please choose one

An auditor would most likely issue an inability to form an opinion because which of the following?

Inadequate disclosure of material information in the financial statements

- The omission of the statement of cash flow
- Management's refusal to furnish written representations
- A material departure from accounting standards

Question No: 14 __ (Marks: 1) - Please choose one

Which of the following is a technique in accounting that can be used to present the financial position of the company in a favorable light?

- Good will
- Relevance
- Consistency

Window dressing

Question No: 15 __ (Marks: 1) - Please choose one

Which of the following valuation methods can distort the comparison between companies?

Inventory valuation methods

- Assets valuation methods
- Sales valuation methods
- Expenses valuation methods

Different accounting practices can distort comparisons. As noted earlier, inventory valuation and depreciation methods can affect financial statements and thus distort comparisons among firms

Question No: 16 __ (Marks: 1) - Please choose one

Which of the following is NOT a disadvantage of a Sole proprietorship?

- Limited capital
- Unlimited liability

Strong managerial expertise

- Lack of continuity

Question No: 17 __ (Marks: 1) - Please choose one

Which of the following types of preferred stocks carry the provision that the issuer has the right to purchase back the stock at a certain price, and retire it whenever he wants?

In arrears preferred shares

Call able preferred shares

Cumulative preferred shares

Participating preferred shares

<http://www.investopedia.com/terms/c/callablepreferredstock.asp>

Question No: 18 (Marks: 1) - Please choose one

Which of the following remains intact and unaffected by the continuous changes in business?

Capital Stock

Assets

Liabilities

Retained Earnings

Question No: 19 __ (Marks: 1) - Please choose one

What will be the effect of purchases of its own shares by the business on the book value of the business?

Increase the total book value

Decrease total book value

No effect on the total book value

May or may not change

http://en.wikipedia.org/wiki/Book_value

Question No: 20 __ (Marks: 1) - Please choose one

When dividends are paid to the shareholders they must be approved by which of the following authority?

Board of directors

Management

Common Stockholders

Preferred Stockholders

__ Question No: 21 (Marks: 1) – Please choose one

Which one of the following represents the value of shares in the market at any point of time?

Par value

Book value

Face value

Market value

Question No: 22 __ (Marks: 1) - Please choose one

Which of the following statements (in general) is CORRECT?

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 23 (Marks: 1) - Please choose one

Which group of ratios shows the extent to which the firm is financed with debt?

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

(page 136)

Debt –To-Total-Assets: The debt-to-total assets ratio is derived by dividing a firm's total debt by its total assets: It indicates percentage of total assets financed by debt

Question No: 24 (Marks: 1) - Please choose one

Earnings per share, return on sales, and return on equity are all examples of which of the following?

Leverage ratios

Liquidity ratios

Turnover ratios

Profitability ratios

Question No: 25 __ (Marks: 1) - Please choose one

If a gross profit stays high, but net profit falls this implies which of the following?

Competitive pressures are increasing

The expenses of the business may be growing too rapidly

The market is becoming saturated

The expenses of the business are firmly under control

Question No: 26 __ (Marks: 1) - Please choose one

Using the following information, calculate the book value per share of common stock.

Common stock, 0.10 par, 10,000 shares authorized

2000 share issued and outstanding

Rs. 200

Paid-in capital in excess of par - common

Rs. 49,800

Retained Earnings

Rs. 28,000

Rs. 25

Rs. 39

Rs. 5

Rs. 7.8

Book value per share common stock = common stockholders equity / Number of common share

$$200 + 49800 + 28000 / 10000$$

7.8

Question No: 27 ____ (Marks: 1) - Please choose one

Which of the following is the percentage change if a negative amount appears in the base year?

Misleading

Positive

Can not be computed

Negative

http://books.google.com/books?id=PFemtNzz0JAC&pg=PA670&lpg=PA670&dq=percentage+change+if+a+negative+amount+appears+in+the+base+year%3F&source=bl&ots=A6omdZrtEV&sig=kLeEA4jBeWIN3oh-obbuWK7kj1o&hl=en&ei=k-wyTdufK8yTjAfNyuW4Cg&sa=X&oi=book_result&ct=result&resnum=4&ved=0CC0Q6AEwAw#v=onepage&q=percentage%20change%20if%20a%20negative%20amount%20appears%20in%20the%20base%20year%3F&f=false

Question No: 28 (Marks: 1) - Please choose one

Which group of ratios relates the financial charges of a firm to its ability to service them?

Debt ratios

Coverage ratios

Profitability ratios

Activity ratios

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6679/1709848.cw/content/index.html

Question No: 29 (Marks: 1) - Please choose one

Oliver Incorporated has a current ratio equal to 1.6 and a quick ratio equal to 1.2. The company has Rs. 2 million in sales and its current liabilities are Rs. 1 million. what is the value of company's current assets?

1,600,000

1,200,000

3,200,000

2,400,000

current ratio = current assets / current liabilities

current assets = current ratio * current liabilities

= 1.6*1,000,000

= 1,600,000

Question No: 30 ____ (Marks: 1) - Please choose one

A firm has beginning accounts receivables of Rs. 375,000, and ending accounts receivables of Rs. 400,000. The sales were Rs. 2,500,000 including cash sales of Rs. 600,000.

Calculate the accounts receivable turnover ratio of the company.

0.76

6.45
4.75
4.90

Account receivable turnover = net credit sales / average account receivable
= 1,900,000 / 387,500
= 4.90

Question No: 31 ____ (Marks: 1) - Please choose one

Which of the following performance measures would be of most direct interest to shareholders?

Return on net assets
Gross profit margin
Debt ratio

Dividend yield

Question No: 32 ____ (Marks: 1) - Please choose one

How is the company's debt ratio calculated?

Total liabilities by total assets

Total assets by total liabilities
Total liabilities by net income
Total assets by operating income

Question No: 33 ____ (Marks: 1) - Please choose one

Sales for 1991 (base year) were Rs. 800,000 and the year-end total asset turnover ratio was 1.6. With which of the following statements would you agree?

The total assets index analysis value, assuming Rs. 1.05 million of assets at the end of 2000, would be 210

The gross profit margin and the net profit margin are examples of balance sheet ratios

If total debt in 2000 was Rs. 420,000, the debt-to-equity ratio in 2000 would be 84%

Index analysis supplements the common-size analysis by comparing key industry ratios

Question No: 34 ____ (Marks: 1) - Please choose one

Which of the following is NOT a profitability measure?

Accounts receivable turnover ratio

Return on total assets
Return on sales
Dividend yield

<http://www.netmba.com/finance/financial/ratios/>

Question No: 35 ____ (Marks: 1) - Please choose one

Which one of the following statement indicates the Inventory turnover ratio?

How quickly company prepared its inventory

How quickly company converts its inventory into cash

How quickly company purchases its inventory

How quickly company sells its inventory

Question No: 36 ____ (Marks: 1) - Please choose one

Operating cycle belongs to which group of ratios?

Leverage ratios

Liquidity ratios

Profitability ratios

Activity ratios

(PAGE 145)

Question No: 37 ____ (Marks: 1) - Please choose one

what will be effect of payment of previously declared dividends on the debt ratio of the company?

Increase

Decrease

No effect

Can not be found from the given information

Question No: 38 (Marks: 1) - Please choose one

All of the following statements are TRUE regarding ratios that measure a company's ability to pay current liabilities EXCEPT:

A higher current ratio is always preferred to a lower current ratio

In most industries, a current ratio of 2.0 is considered adequate

Working capital = current assets - current liabilities

Inventory and prepaid expense are included in the numerator of the current ratio

http://wps.prenhall.com/ca_ph_hornsgren_accounting_7/60/15481/3963328.cw/content/index.html

Question No: 39 (Marks: 1) - Please choose one

Which of the following equations properly represents a derivation of the fundamental accounting equation?

Assets + liabilities = owner's equity

Assets = owner's equity

Cash = assets

Assets - liabilities = owner's equity

Question No: 40 ____ (Marks: 1) - Please choose one

The statement of cash flows is designed to assist users in assessing each of the following EXCEPT:

The ability of the company to remain solvent

In assessing the company's profitability

Major source of cash receipt during the period

The reasons for difference between cash from operating activities and net income

Question No: 41 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill for services already received will result in which of the following?

An overstatement of assets

An overstatement of liabilities

An overstatement of equity

An understatement of assets

Question No: 42 ____ (Marks: 1) - Please choose one

Which of the following is NOT an advantage of the accrual basis of accounting?

It is simple to see what payments to vendors are outstanding

It is easy to see how much revenue is due the company

It is much easier to assess the overall financial health of the company

It is much easier and cheaper to maintain

FINAL TERM EXAMINATION
Spring 2010
FIN621 - Financial Statement Analysis

Solved By
Fariha Maqbool, Anam Aslam
Ahmed and Kamran Haider

Time: 90 min

Marks: 69

Student Info	
StudentID:	
Center:	
ExamDate:	Tue, Aug 10, 2010

Question No: 1 (Marks: 1) - Please choose one

After recording the transactions in journal, posting is made to which of the following?

► Trial Balance

► Financial Statements

► **Ledger**

- After-closing Trial Balance

PAGE#9

Posting in ledger which mean transferring debits and credits from journal to ledger account. This is also called ledgerising or classification

Question No: 2 (Marks: 1) - Please choose one

Which of the following is **TRUE** about the preparation of Trial Balance?

- It is prepared at the beginning of the year
- It is prepared at the end of the fiscal year
- It is prepared at the beginning of the accounting period
- **It is prepared at the end of the accounting period**

PAGE#16

• At the end of accounting period, a list of all ledger balances is prepared. This list is called trial Balance.

Question No: 3 (Marks: 1) - Please choose one

Prepaid Expense is a(n) _____ account and has a _____ normal balance.

- Revenue, credit
- Liability, credit
- **Asset, debit**
- Expense, debit

Question No: 4 (Marks: 1) - Please choose one

One purpose of closing entries is to give zero balances to which of the following accounts?

- ▶ Asset and liability accounts
- ▶ Liability and capital accounts
- ▶ **Revenue and expense accounts**
- ▶ Expense and capital accounts

PAGE#35

PURPOSE OF CLOSING ENTRIES

1. Updates the owner's capital account in the ledger by transferring net income (loss) and owner's drawings to owner's capital.
2. Prepares the temporary accounts (revenue, expense, drawings) for the next period's postings by reducing their balances to zero.

Question No: 5 (Marks: 1) - Please choose one

Which of the following would be considered as cash flow from investing activities?

- ▶ Proceeds from issuance of long-term debt
- ▶ **Expenditure for sale of plant and equipment**
- ▶ Payments to suppliers
- ▶ Receipts from sale of goods or services

PAGE#48

Cash flow from investing activities includes cash receipts and payments that arise from Fixed and Long Term assets of the organization.

- **Cash inflows:**
 - From sale of property, plant, and equipment
 - From sale of debt or equity securities of other entities
 - From collection of principal on loans to other entities
- **Cash outflows:**

- To purchase property, plant, and equipment
- To purchase debt or equity securities of other entities
- To make loans to other entities

Question No: 6 (Marks: 1) - Please choose one

The cash flow from investing activities shows the cash effects of which of the following?

- ▶ Income statement items
- ▶ **Long term assets items**
- ▶ Long term liability & stockholder's equity
- ▶ Long term liability and long term assets

PAGE#47

Cash Flow From Investing Activities

Cash flow from investing activities includes cash receipts and payments that arise from Fixed and Long Term assets of the organization.

Question No: 7 (Marks: 1) - Please choose one

In a perpetual inventory system, which of the following is **NOT** part of the series of journal entries made when merchandise is sold on credit?

- ▶ **Credit the Cost of Goods Sold account**
- ▶ Credit the Sales account
- ▶ Credit the Merchandise Inventory account
- ▶ Debit the Accounts Receivable account

http://highered.mcgraw-hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html

Question No: 8 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of accelerated depreciation method?

- ▶ **Straight-line method**
- ▶ Sum-of-the-years digit method

- ▶ Double-declining balance method
- ▶ Modified Accelerated Cost Recovery System

Accelerated-Depreciation method: In this method higher depreciation rate is charged in early years and lower rate in later years.

Straight Line Method

Under this method, a fixed amount is calculated by a formula. That fixed amount is charged every year irrespective of the written down value of the asset

Question No: 9 (Marks: 1) - Please choose one

As stated in the audit report, or Report of Independent Accountants, the primary responsibility for a company's financial statements lies with which of the following?

- ▶ The owners of the company
- ▶ Independent financial analysts
- ▶ The auditors
- ▶ The company's management

PAGE#98

Audit of financial statements is independent of the business issuing these. Financial Statements preparation is Management's responsibility

Question No: 10 (Marks: 1) - Please choose one

Which of the following is **NOT** a typical classification of partnerships?

- ▶ General partnerships
- ▶ Limited partnerships
- ▶ Limited liability partnerships
- ▶ Limited capital partnerships

<http://smallbusiness.findlaw.com/business-structures/partnership/partnerships-types.html>

Question No: 11 (Marks: 1) - Please choose one

Capital stock is normally listed on which of the following financial statements of a business enterprise?

- ▶ Cash flow Statement

- ▶ Income Statement
- ▶ Statement of Retained Earnings

▶ **Balance Sheet**

PAGE#150

<http://www.scribd.com/doc/24954370/ch05>

Question No: 12 (Marks: 1) - Please choose one

The money that a company gets from potential investors in addition to the stated value of the stock is referred to which of the following?

- ▶ Paid in capital
- ▶ **Additional paid in capital**
- ▶ Capital stock
- ▶ Contributed capital

PAGE#113

Additional paid-in-capital: shows excess amount received, when stock is sold for more than par value.

http://en.wikipedia.org/wiki/Paid_in_capital

Question No: 13 (Marks: 1) - Please choose one

Generally , investors want to buy shares at which of the following prices?

- ▶ At face value
- ▶ Below face value
- ▶ Above face value
- ▶ **At market value**

page#123

Investors who buy stock are primarily interested in a company's profitability and their prospects for earning a return on their investment by receiving dividends and/or increasing the market value of their stock holdings.

Question No: 14 (Marks: 1) - Please choose one

By computing component percentages for several successive balance sheets, which of the following can **NOT** be found?

- ▶ The increasing items
- ▶ The decreasing items
- ▶ The unchanged items
- ▶ **The future profitable items**

PAGE#128

Component percentages/ Vertical Analysis/ Common- Size Analysis: This type of analysis indicates the relative size of each item in the Financial Statements as a percentage of the total of that Statement i.e. Total Assets or total Liabilities & Shareholders equity in Balance Sheet and Sales in Income Statement. Such a statement is then called common-size Financial Statement. This type of analysis technique is also called Vertical Analysis.

Question No: 15 (Marks: 1) - Please choose one

Which of the following are the ratios that are used to determine an entity's short-term debt paying ability?

- ▶ Times interest earned, inventory turnover, current ratio, and receivables turnover
- ▶ Times interest earned, acid-test ratio, current ratio, and inventory turnover
- ▶ **Current ratio, acid-test ratio, receivables turnover, and inventory turnover**
- ▶ Asset turnover, times interest earned, current ratio, and receivables turnover

page#130

Question No: 16 (Marks: 1) - Please choose one

If a company had a current ratio of 0.5, then which of the following statements regarding that company's working capital would be true?

- ▶ The company's working capital would be positive

► The company's working capital would be zero

► **The company's working capital would be negative**

► The company's working capital would be 2:1

page#130

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%204%20-%20multiple%20choice.htm#10>.

Question No: 17 (Marks: 1) - Please choose one

A company has an inventory turnover ratio of 1.05 times, and cost of goods sold of Rs. 50,000. Calculate the average inventory of the company.

► Rs. 47, 500

► **Rs. 47, 619**

► Rs. 47, 500

► Rs. 47, 650

Inventory turnover ratio = CGS/ average inventory

1.05 = 50000 / A inv

Average inv = 50000/ 1.05

= 47619

1.06

Question No: 18 (Marks: 1) - Please choose one

Which of the following is a possible reason for company's average debtor's collection period falling from one year to the next?

► **An improvement in the state of the economy**

► A large credit customer facing severe cash shortages

► Economic recession

► A shortening of the credit period offered by suppliers

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203069.cw/index.html

Question No: 19 (Marks: 1) - Please choose one

Which of the following ratio is calculated in order to know the liquidity of the accounts receivables?

▶ **Accounts receivables turnover**

▶ Accounts receivables turnover in days

▶ Operating cycle

▶ Activity ratios

page#133

Liquidity of Receivables: It shows how quickly Accounts Receivables are collected i.e. converted into cash. It is determined by Receivable Turnover Ratio (RTO). It is number of times "Receivables" are converted into cash during the year.

Question No: 20 (Marks: 1) - Please choose one

A company can improve (lower) its debt-to-total asset ratio by doing which of the following?

▶ Borrow more

▶ Shift short-term to long-term debt

▶ Shift long-term to short-term debt

▶ **Sell common stock**

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question No: 21 (Marks: 1) - Please choose one

Nishat Corporation had net income of Rs. 100,000, paid income taxes of Rs. 30,000, and had interest expense of Rs. 8,000. What was Nishat's times interest earned ratio?

▶ 12.5

▶ **16.25**

▶ 17.25

► 17.85

operating income available for interest payment /annual interest expenses.

$1,30,000/8000=16.25$ (for more detail see handouts page#137)

Question No: 22 (Marks: 1) - Please choose one

Most consumer-oriented stores and catalogue companies are an example of which of the following type of business?

- Manufacturing
- Service
- **Merchandise**
- Both merchandise and manufacturing

Question No: 23 (Marks: 1) - Please choose one

All of the following statements are true regarding ratios that measure a company's ability to pay short-term and long-term debt **EXCEPT**:

- The average debt ratio is between 0.57 and 0.67
- High times-interest-earned ratio indicates a company can pay interest expense easily
- Debt ratio of 60% indicates 60% of assets are financed with debt
- **Debt ratio of 90% indicates lower financial risk than a debt ratio of 60%**

A Debt Ratio Of 90% Indicates Lower Financial Risk Than A Debt Ratio Of 60%; In General, Lower Financial Risk Results In Lower Interest Rates

http://wps.prenhall.com/ca_ph_horngren_accounting_7/60/15481/3963328.cw/content/index.html

Question No: 24 (Marks: 1) - Please choose one

Which of the following performance measures would be of most direct interest to shareholders?

- Return on net assets
- Gross profit margin
- Debt ratio
- **Dividend yield**

Question No: 25 (Marks: 1) - Please choose one

The total legal capital of the company consists of which of the following?

- Only common stocks issued
- Only preferred stocks issued
- **Common stocks and preferred stocks**

- ▶ Common stocks and retained earnings

page#149

Total legal capital = 12,000,000 (preferred) +14,000,000 (common) = Rs.26, 000,000

Question No: 26 (Marks: 1) - Please choose one

What will be the dividend requirement on outstanding preferred stocks, if the number of preferred shares is 50,000, number of common shares is 40,000 and the dividend per share is Rs. 10.

- ▶ **Rs. 500,000**

- ▶ Rs. 400,000

- ▶ Rs. 5,000

- ▶ Rs. 4,000

50000*10 = 500000

Question No: 27 (Marks: 1) - Please choose one

Which of the following options indicate how quickly accounts receivables are converted into cash?

- ▶ **Accounts receivable turnover**

- ▶ Days to collect accounts receivable

- ▶ Working capital

- ▶ Total assets turnover

page#133

Liquidity of Receivables: It shows how quickly Accounts Receivables are collected i.e. converted into cash. It is determined by Receivable Turnover Ratio (RTO). It is number of times "Receivables" are converted into cash during the year.

Question No: 28 (Marks: 1) - Please choose one

Operating cycle belongs to which group of ratios?

- ▶ Leverage ratios

- ▶ Liquidity ratios

- ▶ Profitability ratios

- ▶ **Activity ratios**

page#145

Efficiency of operating cycle/process: It is determined by activity ratios

Question No: 29 (Marks: 1) - Please choose one

If current assets are Rs. 15.6 million, current liabilities Rs. 11.2 million and stocks Rs. 1.8 million, what is the acid test ratio?

- ▶ 1.39

- ▶ **1.23**

- ▶ 1.65

► 0.89

$$\begin{aligned}\text{Acid Test Ratio} &= \text{Current assets} - \text{Inventories} / \text{Current Liabilities} \\ &= 15.6 - 1.8 / 11.2 \\ &= 1.23\end{aligned}$$

Question No: 30 (Marks: 1) - Please choose one

What will be effect of purchase of inventory on open account on quick ratio of the company?

- Increase
- **Decrease**
- No effect
- Can not be found from the given information

Question No: 31 (Marks: 1) - Please choose one

What will be the effect of conversion of a portion of bonds payable into common stock on the interest coverage ratio of the company?

- **Increase**
- Decrease
- No effect
- Can not be found from the given information

page#137

Interest coverage ratio = operating income available for interest payment = 25 = 5
annual interest expenses. 5

(Normal ratio 3:5)

This ratio serves as one measure of the firm's ability to meet its interest payments and thus avoid

bankruptcy. In general, the higher the ratio, the greater the likelihood that the company could cover its

interest payments without difficulty. It also sheds some light on the firm's capacity to take on new debt

Question No: 32 (Marks: 1) - Please choose one

What will be the effect on the inventory turnover ratio of the company, if it changed from FIFO to LIFO during the period of inflation?

- **Increase**
- Decrease
- No effect
- Can not be found from the given information

Question No: 33 (Marks: 1) - Please choose one

Assume that a company has current assets of Rs. 60,000, current liabilities of Rs. 35,000 and prepaid expenses of Rs. 5,000. Calculate the quick ratio of the company?

▶ 1.57

▶ 1.71

▶ 1.86

▶ 0.58

$$\begin{aligned}\text{Quick ratio} &= \text{current assets} - \text{inventory} - \text{prepaid expenses} / \text{current liabilities} \\ &= 60000 - 5000 / 35000 \\ &= 55000 / 35000 \\ &= 1.57\end{aligned}$$

Question No: 34 (Marks: 1) - Please choose one

A complete set of financial statements for Hartman Company, at December 31, 1999, would include each of the following, **EXCEPT**:

- ▶ Balance sheet as of December 31, 1999
- ▶ Income statement for the year ended December 31, 1999
- ▶ **Statement of projected cash flows for 2000**
- ▶ Notes containing additional information that is useful in interpreting the financial statements

Question No: 35 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill for services already received will result in which of the following?

- ▶ An overstatement of assets
- ▶ An overstatement of liabilities
- ▶ **An overstatement of equity**
- ▶ An understatement of assets

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%202%20-%20multiple%20choice.htm>

The journal entry would involve a debit to expense and a credit to a liability. Failure to record this entry causes expenses and liabilities to be understated. As a result of understating expenses, income and owner's equity are overstated. Notice that assets are correct.

Question No: 36 (Marks: 1) - Please choose one

Which of the following is the proper journal entry to record Ransom Company's billing of clients for Rs. 500 of services rendered?

- ▶ Debit Cash 500; Credit Accounts Receivable 500
- ▶ Debit Accounts Receivable 500; Service Revenue 500
- ▶ **Debit Accounts Receivable 500; Credit Capital Stock 500**
- ▶ Cash 500; Credit Service Revenue 500

Both Accounts Receivable (an asset which is increased with a debit) and Service Revenue (increased with a credit) increase by the rendering of services on account. Cash is not impacted and should not be debited or credited. The increase in revenue will ultimately cause an increase in owner's equity -- but this occurs through financial statement preparation, not a direct credit to Capital Stock.

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%202%20-%20multiple%20choice.htm>

Question No: 37 (Marks: 1) - Please choose one

Which of the following transaction have an effect on expense account?

- ▶ Purchase of office equipment on credit
- ▶ Payment on accounts payable
- ▶ Repayment of principle of bank loan
- ▶ **Payment of wages**

Question No: 38 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill, which have already been received for services, will result in which of the following?

- ▶ An understatement of assets
- ▶ An overstatement of assets
- ▶ An overstatement of liabilities
- ▶ **An overstatement of equity**

The journal entry would involve a debit to expense and a credit to a liability. Failure to record this entry causes expenses and liabilities to be understated. As a result of understating expenses, income and owner's equity are overstated. Notice that assets are correct.

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%202%20-%20multiple%20choice.htm>

Question No: 39 (Marks: 1) - Please choose one

A business has purchased machinery on credit, what will be its journal entry?

- ▶ Cash - (Debit); Machinery - (Credit)
- ▶ **Machinery - (Debit) ; Accounts payable - (Credit)**
- ▶ Accounts payable - (Debit) ; Machinery - (Credit)
- ▶ Machinery - (Debit) ;Cash - (Credit)

Question No: 40 (Marks: 1) - Please choose one

Which of the following is **NOT** normally required for revenue to be recognized according to the revenue principle for accrual basis accounting?

- ▶ The price is fixed or determinable
- ▶ Services have been performed
- ▶ **Cash that has already been collected**
- ▶ Evidence of an arrangement for customer payment exists

Question No: 41 (Marks: 1) - Please choose one

Using the following information calculate Net Income: Sales Revenue Rs.200, 000, Loss on Sale of Equipment Rs.10, 000, Amortization Expense Rs.20, 000 and Cost of Goods Sold Rs.50, 000.

- ▶ Rs. 170,000
- ▶ **Rs. 120,000**
- ▶ Rs. 130,000
- ▶ Rs. 180,000

Sales	200,000
Less cost of goods sold	<u>50,000</u>
Gross profit	1, 50,000
Less	
Loss on sale of equipment	10,000
Less amortization expense	<u>20,000</u>
Net income	1, 20,000

Question No: 42 (Marks: 1) - Please choose one

Which of the following statements is **CORRECT** regarding depreciation methods?

- ▶ Accumulated depreciation represents a fund being accumulated for the replacement of assets
- ▶ The cost of a machine includes the cost of repairing damage to the machine during the installation process
- ▶ A company may use different depreciation methods in its financial statements and its income tax returns
- ▶ **The use of an accelerated depreciation method causes an asset to wear out more quickly than does the straight line method**

Question No: 43 (Marks: 1) - Please choose one

The actions taken by the management to make company appear as strong as possible in its financial statements is termed as which of the following?

- ▶ **Window dressing**
- ▶ Understanding

- ▶ Comprehensiveness
- ▶ Materiality

page#124

Firms can employ “window dressing” techniques to make their financial statements look stronger.

Question No: 44 (Marks: 1) - Please choose one

Persons, who sign articles/memorandum of the company, contribute in the initial share capital of the company. They are called as:

- ▶ **Subscribers**
- ▶ Undertakers
- ▶ Investors
- ▶ Shareholders

(page 114)

Subscribers / Sponsors Of The Company

Subscribers / Sponsors are the persons who sign articles and memorandum of the company and contribute in the initial share capital of the company.

Question No: 45 (Marks: 1) - Please choose one

ABC Company now wants to further raise its capital; it is going to offer its shares first to current shareholders. The issuance of further capital to Present Shareholders is called:

- ▶ Paid-in capital
- ▶ Preferred-stock Issue
- ▶ **Right Issue**
- ▶ Additional capital

page#114

Where a company wants to issue further capital (called raising the capital), shares are first offered to current shareholders. The issuance of further capital to Present Shareholders is called **Right Issue**

Question No: 46 (Marks: 1) - Please choose one

Which one of the following ratios measures general liquidity of a company?

- ▶ Quick ratio
- ▶ **Current ratio**
- ▶ Investments ratio
- ▶ Defensive interval ratio

page#130

It should be noted that current ratio measures “general liquidity”,

Question No: 47 (Marks: 1) - Please choose one

Which of the following is **MORE** concerned with the short-term solvency?

- ▶ Short term Creditors
- ▶ Long term Creditors
- ▶ Short term Debtors
- ▶ Long term Debtors

PAGE#130

Analysis by short-term creditors: Interest of short-term creditors is to watch the ability of business to meet its debts as these become due; i.e. Short-term solvency.

Question No: 48 (Marks: 1) - Please choose one

The increasing Return on Sales (ROS) shows:

- ▶ Company is facing financial troubles
- ▶ Company is retaining more than 65% of its profit for operational efficiency
- ▶ Company is paying dividends consistently over the past years
- ▶ Company is growing by leaps and bounds

page#144

A ratio widely used to evaluate a company's operational efficiency. ROS is also known as a firm's

"operating profit margin". An increasing ROS indicates the company is growing more efficient, while a decreasing ROS could signal looming financial troubles

Solved By
Fariha Maqbool, Anam Aslam
Ahmed and Kamran Haider

FINAL TERM EXAMINATION

Fall 2009

FIN621- Financial Statement Analysis (Session - 1)

Question No: 1 (Marks: 1) - Please choose one

Which of the following arrangement is used to maintain the accounts?

- ▶ Sequentially
- ▶ Alphabetically
- ▶ Monthly

▶ **Orderly**

(page 8)

Orderly arrangement of Accounts is to be maintained. Numbering of Accounts is also done to facilitate proper record-keeping and cross references.

Question No: 2 (Marks: 1) - Please choose one

Which of the following represents the main step(s) of accounting cycle?

- ▶ Recording the transactions
- ▶ Classifying the transactions
- ▶ Ordering, summarizing, counting the transactions

▶ **Recording, classifying, summarizing transactions**

Question No: 3 (Marks: 1) - Please choose one

Blankenship Company pays its employees every Friday for work rendered that week. The payroll is typically Rs.10,000 per week. Which of the following journal entries would Blankenship ordinarily record on the Friday payday?

► Salary expense Rs. 10,000 - Debit; Salary payable Rs. 10,000 - Credit

► **Salary expense Rs. 10,000 - Debit; Cash Rs. 10,000 - Credit**

► Salary payable Rs. 10,000 - Debit; Cash Rs. 10,000 - Credit

► Salary payable Rs. 10,000 - Debit; Salary expense Rs. 10,000 - Credit

Question No: 4 (Marks: 1) - Please choose one

Retained earnings change over time because of several factors. Which of the following factors would explain an **INCREASE** in retained earnings?

► **Net Income**

► Dividends payment

► Investment by the stockholders

- ▶ Net Loss

Question No: 5 (Marks: 1) - Please choose one

Which one of the following statements is **TRUE** regarding distributions to stockholders?

- ▶ The payment of dividends is not directly related to the profits of a given period

- ▶ Shareholders can individually decide on their distributions

- ▶ **To receive a corporate dividend, stock must be owned on the date of declaration**

- ▶ Corporate dividends reduce contributed capital and therefore, stockholders' equity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is the largest single expense of most merchandising firms?

- ▶ **Cost of goods sold**

- ▶ Rent Expense

- ▶ Amortization Expense

- ▶ Salaries Expense

Question No: 7 (Marks: 1) - Please choose one

Which of the following is **NOT** the most common example of cash equivalents?

- ▶ Savings deposits
- ▶ **Certificates of Deposit (CDs)**
- ▶ Stocks of other companies
- ▶ Money market mutual funds

Question No: 8 (Marks: 1) - Please choose one

The statement of cash flow does **NOT** assist investors, creditors and others in assessing:

- ▶ The company's ability to generate positive cash flows in future periods
- ▶ The company's ability to meet its obligations and to pay dividends
- ▶ The company's needs for external financing
- ▶ **The company's ability to forecast future losses**

Cash Flow Prediction is Better than Earning Prediction - Cash flow ...

Developing ratios for effective cash flow statement analysis ...

Question No: 9 (Marks: 1) - Please choose one

When using the perpetual inventory system, each time a sale is recorded the:

- ▶ Inventory account is increased

► **Inventory account is decreased**

- Cost of Goods Sold account is decreased
- Cost of goods available for sale decreases

Perpetual System

1. **Purchases increase Merchandise Inventory.**
2. **Freight costs, Purchase Returns and Allowances and Purchase Discounts are included in Merchandise Inventory.**
3. **Cost of goods sold is increased and Merchandise Inventory is decreased for each sale.**
4. **Physical count done to verify Inventory balance.**

Question No: 10 (Marks: 1) - Please choose one

In perpetual inventory system, a return of defective merchandise is recorded by crediting _____.

- Purchases
- Purchase Returns
- Purchase Allowance

► **Merchandise Inventory**

Financial Accounting and Accounting Standards

http://highered.mcgraw-hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html

Question No: 11 (Marks: 1) - Please choose one

Which factor would **NOT** affect the gross profit rate?

► **An increase in the cost of heating the store**

- ▶ An increase in the price of inventory items
- ▶ An increase in the sale of luxury items
- ▶ An increase in the use of "discount pricing" to sell merchandise

SELF-STUDY QUESTIONS

Question No: 12 (Marks: 1) - Please choose one

Assets which have **NO** market value are called:

- ▶ **Wasting assets**
- ▶ Fictitious assets
- ▶ Quick assets
- ▶ Tangible assets

Question No: 13 (Marks: 1) - Please choose one

Audit opinions can **NOT** be classified as which of the following?

- ▶ Adverse opinion

► Unqualified opinion

► Qualified opinion

► **Disagreement of opinion**

Auditor's Report, Opinion/Certificate: There are four types of Audit certificates.

i) **Unqualified:** It states that Financial Statements present information in conformity with GAAP.

ii) **Qualified:** It qualifies the Report with certain observations.

iii) **Adverse:** It states that financial statements have not been presented fairly in accordance with GAAP.

iv) **Disclaimer:** Auditor expresses his inability to report on Financial Statements for various reasons.

Question No: 14 (Marks: 1) - Please choose one

The audit is **NOT** a necessary requirement for which of the following companies?

► Listed companies

► Corporations

► **Sole proprietorship**

► Partnerships

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **NOT** a part of the five-year summary of a company?

► Net income/Loss

► Total assets

► **Discontinued operations**

- Net sales

(page 103)

This is also a very important part of Annual Report prepared by the management of a corporation. It offers quick look at some overall trends, and it includes net sales or operating revenues, income/loss from continuing operations, total assets, long-term obligations and cash dividend per common share.

Question No: 16 (Marks: 1) - Please choose one

Which of the following is **NOT** a limitation of financial statements for an investor?

► **It provides complete basis for the analysis of a company**

► Past financial performance does not signify what will happen with the investor in future

► The financial statements are useless without the notes to the financial statements

- Unless the statements are audited their authenticity is under doubt

Question No: 17 (Marks: 1) - Please choose one

Which of the following is **NOT** a feature of preferred shares?

► **Distributive**

- Callable

- In arrears

- ▶ Cumulative

http://en.wikipedia.org/wiki/Preferred_stock

Question No: 18 (Marks: 1) - Please choose one

Which of the following is a type of preferred stock that entitles the holder to a fixed dividend and, in addition, to the right to get any surplus profits after payment of agreed levels of dividends to holders of common stock?

- ▶ In arrears preferred shares
- ▶ Call able preferred shares
- ▶ Cumulative preferred shares

▶ **Participating preferred shares**

Question No: 19 (Marks: 1) - Please choose one

Which one of the following represents the value of shares in the market at any point of time?

- ▶ Par value
- ▶ Book value
- ▶ Face value

▶ **Market value**

Question No: 20 (Marks: 1) - Please choose one

By computing component percentages for several successive balance sheets, which of the following can **NOT** be found?

- ▶ The increasing items
- ▶ The decreasing items
- ▶ The unchanged items

▶ **The future profitable items**

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter14/chapter_summary.html

Question No: 21 (Marks: 1) - Please choose one

Which of the following would **NOT** improve the current ratio?

- ▶ Issue long-term debt to buy inventory
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

▶ **Borrow short term to finance additional fixed assets**

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question No: 22 (Marks: 1) - Please choose one

Krisle and Kringle's debt-to-total assets ratio is 4%. What is its debt-to-equity ratio?

▶ 2%

▶ 7%

▶ **6%**

▶ 3%

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question No: 23 (Marks: 1) - Please choose one

A company experiences a dramatic fall in its gross profit ratio. This could be the result of which of the following?

▶ **An increase in competition in the company's main product market**

▶ An increase in the incidence of bad debts

▶ An increase in overhead expenses

▶ An increase in demand for the company's products

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_8/145/37242/9534033.cw/content/index.html

Question No: 24 (Marks: 1) - Please choose one

Which of the following is **NOT** an objective of fundamental analysis?

- ▶ To make projection on its business performance
- ▶ **To predict the future stock price**
- ▶ To evaluate its management and make internal business decisions
- ▶ To calculate its credit risk

http://en.wikipedia.org/wiki/Fundamental_analysis

Question No: 25 (Marks: 1) - Please choose one

Which of the following is **NOT** a goal of analysis of financial statement?

- ▶ Assess the past performance
- ▶ Asses the current financial position
- ▶ Predict the future performance of the company
- ▶ **Asses the working of management in the future**

Question No: 26 (Marks: 1) - Please choose one

In isolation, which of the following is **TRUE** about a financial ratio?

- ▶ **Useless piece of information**
- ▶ Useful piece of information
- ▶ Useful only for past performance
- ▶ Useful only for future predictions

Question No: 27 (Marks: 1) - Please choose one

Financial statement ratio analysis may be undertaken to study liquidity, turnover, profitability, and other indicators. To which does the current ratio most relate?

- ▶ **Liquidity**
- ▶ Turnover

- ▶ Profitability
- ▶ Other indicator

<http://www.principlesofaccounting.com/questions%20-%20multiple%20choice/chapter%2016%20-%20multiple%20choice.htm>

Question No: 28 (Marks: 1) - Please choose one

Which of the following would **NOT** result in an improved overall gross margin of a business?

- ▶ A fall in raw material prices resulting in a lower cost of sales
- ▶ **Higher discounts offered to customers**
- ▶ Increased selling price of existing products
- ▶ Introduction of new products with a higher gross profit margin

http://tutor2u.net/business/quizzes/as/analysing_financial_performance/quizmaker.htm

Question No: 29 (Marks: 1) - Please choose one

Which of the following would **NOT** improve the return on investment ratio?

- ▶ Reducing costs
- ▶ Increasing gains
- ▶ Accelerating gains

▶ **Issuing treasury stock**

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Decision makers will also look for ways to improve ROI by reducing costs, increasing gains, or accelerating gains.

Question No: 30 (Marks: 1) - Please choose one

Which one of the following statement indicates the Inventory turnover ratio?

- ▶ How quickly company prepared its inventory
- ▶ How quickly company converts its inventory into cash

► How quickly company purchases its inventory

► **How quickly company sells its inventory**

Question No: 31 (Marks: 1) - Please choose one

Which of the following is the ideal position of debt ratio?

► 30%

► **60%**

► 50%

► 45%

Question No: 32 (Marks: 1) - Please choose one

If current assets are Rs. 15.6 million, current liabilities Rs. 11.2 million and stocks Rs. 1.8 million, what is the acid test ratio?

► 1.39

► **1.23**

► 1.65

► 0.89

$$15.6 - 1.8 / 11.2 = 1.23$$

Question No: 33 (Marks: 1) - Please choose one

Which of the following is essential to conduct business activity, particularly in times of adversity?

► Profitability

► **Liquidity**

► Stability

► Solvency

http://books.google.com/books?id=-DSdeU2kheoC&pg=PA22&lpg=PA22&dq=Which+of+the+following+is+essential+to+conduct+business+activity,+particularly+in+times+of+adversity&source=bl&ots=I7TeBBgxG_&sig=TY2OkIq2GIDwCdktIP17R3F8UG8&hl=en&ei=x6IxTd2NPMqWhQfM9uC_Cw&sa=X&oi=book_result&ct=result&resnum=5&ved=0CCYQ6AEwBA#v=onepage&q&f=false

Question No: 34 (Marks: 1) - Please choose one

Which of the following explains the debit and credit rules relating to recording revenues and expenses?

► **Realization and matching principle**

- The effect of revenues and expenses in the owner's equity
- Expenses appear on the left side of the income statement
- Liabilities are recorded as debit on the balance sheet

Question No: 35 (Marks: 1) - Please choose one

Which of the following equations properly represents a derivation of the fundamental accounting equation?

- Assets + liabilities = owner's equity
- Assets = owner's equity
- Cash = assets

► **Assets - liabilities = owner's equity**

Question No: 36 (Marks: 1) - Please choose one

How would the purchase of merchandise on account be represented in the buyer's records?

- Increase assets and increase expenses

► **Increase assets and increase liabilities**

- ▶ Increase liabilities and increase paid-in capital
- ▶ Increase liabilities and decrease assets

Question No: 37 (Marks: 1) - Please choose one

Which of the following is **NOT** an advantage of the accrual basis of accounting?

- ▶ It is simple to see what payments to vendors are outstanding
- ▶ It is easy to see how much revenue is due the company
- ▶ It is much easier to assess the overall financial health of the company
- ▶ **It is much easier and cheaper to maintain**

Question No: 38 (Marks: 1) - Please choose one

ABC company has decided to change the inventory system from FIFO to LIFO keeping in view the raising day by day inflation threat. What different things/factors Mr Ali, the auditor of the company, will have to notify or report?

- ▶ The purpose of switching
- ▶ The existing system drawbacks
- ▶ The new system threats
- ▶ **All of the above**

Question No: 39 (Marks: 1) - Please choose one

Which of the following elements of financial statements is **MOST** closely related to measurement of financial position?

- ▶ **Equity**
- ▶ Income
- ▶ Expense

- ▶ Disclosures

Question No: 40 (Marks: 1) - Please choose one

All of the following steps are considered during the formation of a company
EXCEPT:

- ▶ The memorandum and articles of association of articles should be prepared
- ▶ Suitable persons should be appointed for the subscription of memorandum of association
- ▶ **The election of the CEO of the company**
- ▶ Registration fees should be deposited to registrar of companies and receipt of certificate of incorporation should be collected

Question No: 41 (Marks: 1) - Please choose one

The basic type of capital stock issued by every corporation is known as:

- ▶ **Common stock**
- ▶ Preferred stock
- ▶ Class B
- ▶ Cumulative Stock

Question No: 42 (Marks: 1) - Please choose one

Which of the following ratios provide a **MORE** penetrating measure of liquidity than does the current ratio?

- ▶ **Assets Test Ratio**
- ▶ Defensive interval ratio
- ▶ Investments ratio
- ▶ Current ratio

Acid Test Ratio = $\frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}$ This ratio serves as a supplement to the current ratio in analyzing liquidity. This ratio is the same as the current ratio except that it excludes inventories. Presumably the least liquid portion of current-assets-from the numerator. The ratio concentrates primarily on the more liquid current assets, cash, marketable securities, and receivables, in relation to current obligations. Thus, this ratio provides a more penetrating measure of liquidity than does the current ratio.

Question No: 43 (Marks: 1) - Please choose one

Average payment period is calculated as:

► **365 / Accounts payable turnover**

- 365 X Accounts payable turnover
- 365/ Total purchases
- Accounts payable turnover / 365

Question No: 44 (Marks: 1) - Please choose one

Which of the following ratios indicates in days how quickly inventory is sold?

- Inventory turnover Rate
- **Inventory Turnover ratio**
- Operating Cycle
- Days sales of inventory

Solved By
Fariha Maqbool, Anam Aslam
Ahmed and Kamran Haider

The trial balance shows Supplies of Rs.1,350 and Supplies Expense of Rs.0. If Rs.600 of supplies are on hand at the end of the period, the adjusting entry would be:

- Supplies, Rs. 600 - Debit; Supplies Expense, Rs. 600 - Credit
- Supplies, Rs. 750 - Debit; Supplies Expense, Rs. 750 - Credit
- **Supplies Expense, Rs. 750 - Debit; Supplies, Rs. 750 - Credit**
- Supplies Expense, Rs. 600 Debit; Supplies, Rs. 600 - Credit

Which of the following items are **NOT** added back to the net income figure (which is found on the Income Statement) to arrive at cash flows from operations?

- Depreciation
- Deferred tax
- Amortization
- **Investments**

Which of the following accounts will be debited, when increased?

- Liabilities and expenses
- Assets and equity
- **Assets and expenses**
- Equity and revenues

The users of a statement of cash flows are mostly interested in:

- **Net cash flow from operating activities**
- Net cash flow from investing activities
- Net cash flow from financing activities
- Net cash flow from non-cash transactions

A business has purchased a building on cash, how it would be recorded in the journal?

Select correct option:

- **Building - Debit; Cash - Credit**
- Cash - Debit; Building - Credit
- Building - Debit; Owner's equity - Credit
- Building - Debit; Accounts Payable - Credit

The current ratio will be excessively very high in which of the following inventory costing Methods?

- **FIFO**
- LIFO
- Average cost
- Specific identification

Which of the following is a type of preferred stock that entitles the holder to a fixed dividend and, in addition, to the right to get any surplus profits after payment of agreed levels of dividends to holders of common stock?

- ▶ In arrears preferred shares
- ▶ Call able preferred shares
- ▶ Cumulative preferred shares
- ▶ **Participating preferred shares**

There are five main kinds of current assets. Which of the following is NOT among them?

Select correct option:

- Cash and equivalents
- **Deferred income**
- Accounts receivable
- Prepaid expenses

What will be the effect on the EPS of the company, if it paid stock dividend on common stock?

- **Increase**
- Decrease
- **No effect**
- Can not be found from the given information

What will be the effect of appropriated retained earnings on the rate of return on stockholder's equity?

- **Increase**
- Decrease
- No effect

- Can not be found from the given information

Which one of the following statement indicates the Inventory turnover ratio?

- How quickly company prepared its inventory
- How quickly company converts its inventory into cash
- How quickly company purchases its inventory
- **How quickly company sells its inventory**

Which of the following options indicate how quickly accounts receivables are converted into cash?

- a) **Accounts receivable turnover**
- b) Days to collect accounts receivable
- c) Working capital
- d) Total assets turnover

Ames Corporation's net accounts receivable were Rs. 750,000 on December 31, 20X1, and Rs. 1,250,000 on December 31, 20X2. Net cash sales for 20X2 were Rs. 3,300,000. The accounts receivable turnover ratio for 20X2 was 16. What were the total net sales for 20X2?

- a) Rs. 12,800,000
- b) **Rs. 16,000,000**
- c) Rs. 16,100,000
- d) Rs. 19,300,000

Calculation:

Receivable turnover = net credit sales/Avg.receivable

16 = net credit sales/1000,000

16*1000,000=net credit sales

16,000,000= net credit sales

Nestle Pakistan Limited is an example of which of the following types of businesses?

- a) **Manufacturing**
- b) Service
- c) Merchandise
Whole seller