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FIN621 Finalterm Papers…5 Papers Solved..
By Asad Munir

FINALTERM 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
► Sequentialy
► Alphabaticaly
► Monthly
► **Orderly**
Orderly arrangement of Accounts is to be maintained.

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
► Inves by the stockhldrrs
► 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

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► Corporate dividends reduce contributed capital and therefore, stockholders
http://wps.prenhall.com/bp_werner_ifa_3/8/2254/577225.cw/-/577227/index.html

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
► **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**

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

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**

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

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► An increase in the sale of luxury items
► An increase in the use of "discount pricing" to sell merchandise

Response B: An increase in the sale of luxury items would be likely to cause the gross profit rate to increase because the gross profit rate on luxury items tends to be higher than on non-luxury items. If more luxury items are sold, the overall gross profit rate should increase.
Response C: An increase in the use of "discount pricing" would be likely to reduce the gross profit rate. Since the selling price of items would likely be lower and the cost of goods would not change, the gross profit rate would decrease.
Response D: An increase in the price of inventory items would cause cost of goods sold to be higher and assuming sales prices were not increased at the same time, the gross profit rate would be lower.

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**

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 [page 103]**
► Net sales

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

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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

Non-cumulative" preferred shares do not accumulate dividends that are in arrears

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**

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

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► Sell common stock to reduce current liabilities
► Sell fixed assets to reduce accounts payable
► **Borrow short term to finance additional fixed assets**

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%**
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: 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

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

. There are several possible objectives:
 to conduct a company stock valuation and predict its probable price evolution,
 to make a projection on its business performance,
 to evaluate its management and make internal business decisions,
 to calculate its credit risk.

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**
financial statements should reflect an accurate picture of the financial position and performance of a business, and should convey information useful to assess the past and

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predict 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
Financial ratios are calculated from one or more pieces of information from a company's financial statements. For example, the "gross margin" is the gross profit from operations divided by the total sales or revenues of a company, expressed in percentage terms. In isolation, a financial ratio is a useless piece of information

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

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

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**

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**

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Question No: 31 (Marks: 1) - Please choose one
Which of the following is the ideal position of debt ratio?
► 30%
► **60%**
► 50%
► 45%

Debt ratio indicates the proportion of a company's assets that is financed with debt. This ratio measures a business's ability to pay both current and long-term debts (total liabilities). Low debt ratio is safer than a high debt ratio. normal debt ratio in US is 60% to 70%

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
Acid Test Ratio = Current assets- Inventories/ Current Liabilities

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
Liquidity is essential to conducting business activity, *particularly in times of adversity*, such as when a business is shut down by a strike

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 [page 121]**
► 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

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► Assets = owner's equity
► Cash = assets
► **Assets - liabilities = owner's equity**
http://www.principlesofaccounting.com/questions%20-%20%20multiple%20choice/chapter%201%20-%20multiple%20choice.htm

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

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► **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 [page 131]**
► Defensive interval ratio
► Investments ratio
► 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

Question No: 45 (Marks: 3)
How does working capital help management in making rationale decisions?

Question No: 46 (Marks: 5)
Consider the following information.

Cash Rs. 15,000
Beginning net receivables Rs. 55,000
Ending net receivables Rs. 57,000
Net sales Rs. 640,000

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Net credit sales Rs. 480,000
Cost of goods sold Rs. 390,000
Average inventory Rs. 62,000

Requirement:
Compute the receivable turnover to the nearest tenth.

Receivables turn over ratio = Net credit sales /Average Debtors
= 640,000 / [(55,000+57,000)/2]
= 640,000 / 56,000
= 11.43

Question No: 47 (Marks: 5)
Assume that you are a commercial loan officer at a large bank. One of your clients recently submitted an application for Rs. 300,000 five year loan. You have worked with this business before on numerous occasions and have periodically been forced to deal with late and missed payments attributed to cash flow problems. Thus you are surprised to see in the business plan accompanying the application that the management expects to reduce the company's operating cycle from 190 days to 90 days. A footnote to the business plan indicates that the reduction in the operating cycle will result from a tighter credit policy and the implementation of a just-in-time inventory system.

Requirement:
Would the company be able to reduce the operating cycle by applying the new strategy and would you give the loan to the company on this basis?

Question No: 48 (Marks: 5)
Assume that you are a graduate student and going to form a web page consultancy firm. You are very young and compassionate to form this company. You need a bank loan of Rs.50,000 for computer equipment , as a collateral you have a bike your father gave you after securing 80% marks in FSc. Not wanting to lose your bike and to protect yourself you decided to organize a corporation. Explain will it be beneficial idea for you or not.

Question No: 49 (Marks: 10)
The data shown below were taken from the financial records of J Ltd at the end of the year. The financial year of the company ends on 31, December each year.

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Accounts Payable	Rs 50,000	Accrued Liabilities	Rs. 33,000
Cash	32,000	Inventories Jan	42,000
Inventories Dec	38,000	Marketable Securities	10,000
Operating Expenses	120,000	Prepaid Expenses	25,000
Purchases (Net)	360,000	Accounts Receivable Jan	61,000
Accounts Receivable Dec	61,000	Long Term Loan	150,000
Plant Assets	400,000	Sales	604,000
Sales Returns	20,000	Retained Earning	133,000
Share Capital (Rs.10 Par) Interest expense	**92,000** 30,000	Market Price	18

On the basis of above information, calculate the following.

a. Debt ratio (4)

b. Debt to equity ratio (2)

c. Debt to total asset ratio (4)

Question No: 50 (Marks: 10)

How many types of audit opinions are there? Assume that you have been appointed as an Auditor of the company, after the audit of the company, what can be your possible audit opinions. Briefly explain each of the audit opinion.

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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 knows as which of the following?

- Double entry system
- Debit
- **Journalizing [page 14]**
- Posting

Question No: 2 (Marks: 1) - Please choose one
An entry that affects more than one accounts is knows as _____.

- **Journal entry**
- Compound entry
- Adjusting entry
- Reversing entry

Sometimes, more than two accounts are affected by a transaction so more than two lines are required. Such a journal entry is known as a compound journal entry .

Question No: 3 (Marks: 1) - Please choose one
In which of the following form 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**

The single-step income statement is not as detailed as the multiple-step income statement. In this income statement, the total of all expenses are deducted from the total of all revenues in one step. This form emphasizes total revenues and total expenses as the factors that determine net income. With this form, amounts such as gross profit and income from operations are not readily available for analysis

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

http://wps.prenhall.com/bp_werner_ifa_3/8/2254/577225.cw/-/577227/index.html

Question No: 5 (Marks: 1) - Please choose one
All of the following are true regarding the financing activity section of the cash flow

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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.pearsoned.com.au/au_be_horngren_acc_4_updt/43/11130/2849381.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 *d merchandise?

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

Under LIFO, the cost of ending inventory is based on the earliest purchase prices, and thus is well below current replacement cost

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

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- 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-hill.com/novella/QuizProcessingServlet

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

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

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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: 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
I f 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

CA/CL=1.2 and (CA-100)/CL=1.1
Trial & Error = 1200/1000 = 1.2
(1200-100)/1000 = 1.1
Net Working Capital = 1200-1000 = 200

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**

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- 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

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

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 [page 137]**
- Profitability ratios
- Activity ratios

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

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**

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Account receivable turnover = total credit sales / average accounts receivable balance
Total credit sale / (750000 + 1250000)/2
Total credit sale / 1,000,000
Total credit sale = 1,000,000 x 16 = 1,600,000
Total sale = 1,600,000 + 3,300,000 = 19,300,000

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

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

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.ae/books?id=PJYDfJ9o93UC&pg=PA48&lpg=PA48&dq=%22best+describes+the+operating+profit+margin%22&source=bl&ots=dDm1P_H8en&sig=inoiJSlYQWZYiK9liqaMB1oynx0&hl=en&ei=y8khTZnUDMforQfwqeGCDA&sa=X&oi=book_result&ct=result&resnum=7&ved=0CD8Q6AEwBg#v=onepage&q=%22best%20describes%20the%20operating%20profit%20margin%22&f=false

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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

Return on Sales - is the profit or income derived from each sales dollar. It is calculated by dividing net income into sales revenues. Return on sales is also known as net profit margin

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

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 [page 142]**
- Net income by average total 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**

the excess paid by an investor over the par-value price of a stock issue. Additional paid-in-capital can arise from issuing either preferred or common stock.

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 [page 132]**
- Days to collect accounts receivable
- Working capital
- Total assets turnover

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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**

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

Quick ratio. This is also called acid-test ratio. In this, inventories and pre-paid expenses are excluded from current assets. Only cash, marketable securities and Receivables (called Quick Assets) are onsidered

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

Neither the appropriation nor the return to un-appropriated Retained Earnings has no effect on total Shareholders' Equity

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

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- Record changes in the financial position of an entity
- **Meet an organization's need for accounting information as efficiently as possible**

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

Retained Earnings are increased by Net Income (or decreased by Net Loss) and decreased by Dividends Declared. The ONLY thing that affects Retained Earnings directly is Dividends Declared. .

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

http://highered.mcgraw-hill.com/novella/QuizProcessingServlet

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

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- 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

Question No: 43 (Marks: 3)
If the retained earnings account has a debit balance, how is it presented in the balance sheet and what is it called?

Question No: 44 (Marks: 3)
Using the following information, compute the dividend yield to the nearest tenth.
Income Rs. 130,000
Beginning shares outstanding 250,000
Ending shares outstanding 270,000
Current price per share Rs. 7.50
Dividend per share Rs. 1.20

Question No: 45 (Marks: 3)
What information is provided by the balance sheet to the short term and log term creditors?

Question No: 46 (Marks: 5)
Assume that you are a commercial loan officer at a large bank. One of your clients recently submitted an application for Rs. 300,000 five year loan. You have worked with this business before on numerous occasions and have periodically been forced to deal with late and missed payments attributed to cash flow problems. Thus you are surprised to see in the business plan accompanying the application that the management expects to reduce the company s operating cycle from 190 days to 90 days. A footnote to the business plan indicates that the reduction in the operating cycle will result from a tighter credit policy and the implementation of a just-in-time inventory system.
Requirement:
Would the company be able to reduce the operating cycle by applying the new strategy and would you give the loan to the company on this basis?

Question No: 47 (Marks: 5)
In each of the following situations, indicate the form of organization that you would expect the business to take.
a) A neighborhood lawn-moving business operated by a teenager
b) A company organized to manufacture an electric car
c) A small retail clothing store, owned and operated by a brother and sister
d) A medical group consisting of six doctors, organized in a state that does not allow professional practices to incorporate.
e) A flight school owned by an airline pilot. The business is profitable, but the owner uses the profits to buy planes and expand the business.

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Question No: 48 (Marks: 10)
The year end balance sheet of LaserTech, Inc includes the following stockholder s equity section. Stockholder s equity:
Rs. 8 cumulative preferred stock, Rs. 100 par value,
callable at Rs. 103, 200,000 shares authorized
Rs. 6,000,000
Common stock, Rs. 2 par value, 5,000,000 shares
authorized:
Issued Rs.
3,600,000
Subscribed 1,400,000 5,000,000
Additional paid in capital
Preferred Rs. 240,000
Common (including subscribed shares) 25,000,000 25,240,000
Retained earnings 3,690,000
Total stockholder s equity Rs. 39,930,000
Assets of the corporation include subscriptions receivable, Rs. 5,600,000.
Requirement:
a. How many shares of commons stock have been issued or subscribed? (2)
b. What is the total legal capital, including shares subscribed? (2)
c. What is the total paid in capital, including shares subscribed? (3)
d. What is the book value per share of the common stock, assuming that no dividends in arrears. (3)

Question No: 49 (Marks: 10)
Listed below is the working capital information for ABC Company, at the beginning of the year.
Cash Rs. 405,000
Temporary investment in marketable securities 216,000
Notes receivables current 324,000
Accounts receivables 540,000
Allowance for doubtful accounts 27,000
Inventory 432,000
Prepaid expenses 54,000
Notes payable within one year 162,000
Accounts payable 445,000
Accrued liabilities 40,500

The following transactions are completed during the year:
1. Sold on account inventory costing Rs. 72,000 for Rs. 65,000
2. Issued additional shares of capital stock for cash, Rs. 800,000
3. Sold temporary investments, Rs. 60,000, for Rs. 54,000 cash

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4. Acquired temporary investments costing Rs. 105,000. paid cash
5. Wrote off uncollectible accounts, Rs. 18,000
6. Sold on account inventory costing Rs. 75,000 for Rs. 90,000
7. Acquired plant and equipment for cash, Rs. 480,000
8. Declared a cash dividend, Rs. 240,000
9. Declared a 10% stock dividend
10. Paid accounts payable, Rs. 120,000
11. Purchased goods on account, Rs. 90,000
12. Collected cash on accounts receivables, Rs. 180,000
13. Borrowed cash from a bank by issuing a short term note, Rs. 250,000

Requirement:
a) Compute the amount of quick assets, current assets, and current liabilities at the beginning of the year shown by the above account balances (2+2+2)
b) Compute the current ratio, and quick ratio. (2+2)

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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

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**

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

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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

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

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

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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

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

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**

Financial Statements preparation is Management's responsibility, whereas expressing opinion as to their fairness is the Auditor'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

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► **Limited capital partnerships**

In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of partnerships are general partnerships, limited partnerships, and limited liability partnerships.

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**

Capital Stock is a preferred stock that a company is authorize to issue, according to their corporate charter. Capital stock is normally listed on a company's balance sheet.

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

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

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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**

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

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

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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

50,000 / 1.05 = 47619

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

The average debtors collection period measures the time taken to collect debts from credit customers. When the economy is growing customers often witness an improvement in their finances and this will tend to speed up the rate at which they pay their debts, thereby reducing the collection period. Economic recession would have the opposite effect of worsening the finances of customers causing them to slow down payments. Similarly a large customer with cash shortages is likely to at least delay payment and perhaps even go bankrupt leaving debts unpaid. Shortening the credit period offered by suppliers does not affect the collection period since it relates to the speed with which the company pays its own debts
http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203070.cw/content/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?

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► **Accounts receivables turnover**

► Accounts receivables turnover in days

► Operating cycle

► Activity ratios

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

TIE Ratio = (Net Income + Interest Expense + Income Tax Expense) / Interest Expense
TIE Ratio = (100,000 + 8,000 + 30,000) /8000 = 17.25

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?

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

Most consumer-oriented stores and catalogue companies are distributors or retailers

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%.**

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 [page 149]**
► Common stocks and retained earnings

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

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► Rs. 5,000
► Rs. 4,000

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

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

Operating cycle belongs to which group of ratios?

► Leverage ratios
► Liquidity ratios
► Profitability ratios
► **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

(15.6 – 1.8) / 11.2 = 1.23

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

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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

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

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?

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► An overstatement of assets
► An overstatement of liabilities
► **An overstatement of equity**
► An understatement of assets

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

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**

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

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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

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 fro 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

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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

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

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

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

It should be noted that current ratio measures "general liquidity", whereas quick ratio measures "immediate 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

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► Long term Debtors

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**

Question No: 49 (Marks: 3)

If a company uses Rs.20, 000 to buy merchandise for inventory. What do you think would be the effect on working capital? Give reason.

Question No: 50 (Marks: 3)

Ahmad Incorporation has Owner's Equity of amount Rs.75, 000 as an opening balance. During the period, three major transactions occurred:
Issuance of stock: Rs.22, 000
Dividend distribution: Rs.10, 000
Net Loss: Rs.6, 000.

Based on these transactions, what would be the Ahmad's ending balance of Owner's Equity?

Answer

Owner's Equity (beg)	75000
Add; Stocks Issued	22000
Less; Dividend distribution	10000
Less; Net Loss	6000
Owner's Equity (end)	81000

Question No: 51 (Marks: 5)

ABC Company is famous for its automobiles. The business has undergone the following changes in the month of March. Prepare the journal entries for the transactions.

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1. Mar. 1 Owner deposited Rs. 50,000 cash in a bank account in the name of the business.

2. Mar. 5 Purchased land for Rs. 160,000, of which Rs. 40,000 was paid in cash. A short-term note payable was issued for the balance of Rs. 120,000

3. Mar. 6 An arrangement was made with the XYZ Company to provide parking privileges for its customers. XYZ Company agreed to pay Rs. 1,200 monthly, payable in advance. Cash was collected for the month of March.

4. Mar. 7 Arranges with Times Printing Company for a regular advertisement in the Times at a monthly cost of Rs. 390. Paid for advertisement during March by check, Rs. 390

5. Mar. 15 Parking receipts for the first half of the month were Rs. 1,836, exclusive of the monthly fee from XYZ Company

Question No: 52 (Marks: 5)

Following data is taken from the ABC Corporation.

	1999 (Rs.)	2000 (Rs.)
Total assets	400,000	300,000
Total liabilities	300,000	180,000
Share capital (Rs. 10 par	100,000	90,000
Total debt	120,000	140,000

Requirement:
Calculate the following.

a) Debt ratio (2.5)
b) Debt to total asset ratio (2.5)

Question No: 53 (Marks: 5)

Assume that you wish to invest in the stocks of a high-tech corporation and that one of your investments goals is to receive dividend income from the stocks that you purchase. You begin your research by examining Microsoft, one of the world's most successful software corporations. You quickly discover that, as of 1997, Microsoft had never paid a dividend. Furthermore, the company's 1997 balance sheet reported holdings of nearly Rs.

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9 billion in cash and highly liquid securities. With all of these liquid resources available, why do you suppose that Microsoft has never paid a cash dividend to its stockholders?

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 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

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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

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

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

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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

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

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transaction

http://highered.mcgrawhill.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

Adverse Opinion Financial statements do not present fairly the financial position, results of operations, and cash flows in conformity with GAAP.

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

One other limitation of Financial Statements is that information is not available in Financial

statements about employees' relations with management, morale/efficiency of employees,

reputation/public perception of the enterprise, effectiveness of management team and potential exposure to regulatory changes. Financial Statements have the limitation that assessment of future profitability is not possible by reading these Financial Statements thus give limited picture of an enterprise in monetary terms

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

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

► Corporations

► **Sole proprietorship**

► General partnership

► Limited liability company

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

Common shareholders are entitled only to the residual interest in a liquidation; creditors and preferred shareholders have the preference. In the absence of modification, common shares hold a preemptive right, have voting privileges, and are readily transferable.

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

The stockholders' equity account that represents the amount paid to a corporation for its common stock that was in excess of the common stock's par value. This account is sometimes referred to as the premium on common stock

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

Suppose that an investor buys shares for Rs. 15per 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

a corporation is to record and report separately the par amount of issued shares from the amount received that was greater than the par amount. The par amount is credited to Common Stock. The actual amount received for the stock minus the par value is credited to Paid-in Capital in Excess of Par Value

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

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: 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?

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► **Trend percentages**

► Component percentages

► Common percentages

► Both trend and component percentages

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.

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

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

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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**

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%

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

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

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 [page 149]

► Rs. 2000,000

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► Rs. 45,160,000

► Rs. 43,160,000

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

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

(COGS / AVG INV) = 530,000 / 150,000 = 3.54

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365 / 3.54 = 104

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**

It shows how quickly inventory is sold and is determined by **Inventory Turnover Ratio**

(ITO). It is the number of times the company sells (turns over) it inventory during the year

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

Operating cycle belongs to which group of ratios?

► Leverage ratios

► Liquidity ratios

► Profitability ratios

► **Activity ratios**

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?

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► 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

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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?

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► 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=fOAKexV5AtUC&pg=PA108&lpg=PA108&dq=i
#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

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter5/multiple_choice_quiz.html

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:

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► **Rs. 33,000**

► Rs. 28,000

► Rs. 27,000

► Rs. 23,000

22000-5000=17000 +33000 = 50000

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 fro 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

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

ABC Company selected 'Abdullah and Ahmad Charted 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

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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

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

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

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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

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

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**

Notes to Financial Statements can include information on debt, going concern, accounts, contingent liabilities, or contextual information explaining the financial numbers (e.g. to indicate a lawsuit).

Question No: 49 (Marks: 3)

What do you understand by the efficiency of the operating cycle?

It is determined by activity ratios, keeping in view the conversion process, which is as follows:-

Cash or Assets

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Inventory

Receivable

(Processing Sales)

Cash

Collections

Operating Cycle = Inventory sale days (average) + Receivable Collection days (average).

Shorter operating cycle higher the quality of current assets and the greater the efficiency of management.

Question No: 50 (Marks: 3)

What will be the effect on the book value per share of the common stock of a company, if the corporation obtains a loan?

When a corporation obtains a bank loan there is no effect upon book value per share of common stock. Assets and liabilities both increase by its amount. Therefore, net assets will remain unchanged.

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Question No: 51 (Marks: 5)

Current assets and current liabilities data for companies D and E are summarized as follows:

	Company D	**Company E**
Current assets	Rs. 400,000	Rs. 900,000
Current liabilities	200,000	700,000
Working capital	Rs. 200,000	Rs. 200,000

Requirement:

Evaluate the relative liquidity of the companies. Which company is more favorable?

- **For Company D:**

Current Ratio = Current Assets / Current Liabilities

= 400,000 / 200,000

= **2**

- **For Company E:**

Current Ratio = Current Assets / Current Liabilities

= 900,000 / 700,000

= **1.285**

Company D is more favorable then E.

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Question No: 52 (Marks: 5)

Following is the balance sheet of the ABC Company.

ABC Corporation

Balance Sheet

Mar. 31, 1991

Assets	
Cash	Rs. 12,500
Notes receivables	104,000
Accounts receivables (net)	68,500
Inventories at cost	50,000
Plan & equipment (net of depreciation)	646,000
Total assets	**Rs. 881,000**
Liabilities & Stockholder's equity	
Accounts payable	Rs. 72,000
Notes payable	54,500
Accrued liabilities	6,000
Common stock (60,000 shares, Rs. 10par)	600,000

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Retained earnings	148,500
Total liabilities and owner's equity	**Rs. 881,000**

Requirement:

Calculate the current ratio and quick ratio for both years. (2.5+ 2.5)

- **Current Ratio** = Current Assets / Current Liabilities

  = 881,000/ 881,000

  = **1**

- **Quick Ratio** = Current Assets - Inventories / Current Liabilities

  = (881,000 – 222,500) / 881,000

  = 658,500 / 881,000

  = **0.74**

Question No: 53 (Marks: 5)

You have been given the two years data of XYZ company as follows:

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	2005	2004
Net sales	1,493,622	1,403,243
Assets:		
Beginning of the year	1,039,731	889,584
End of year	1.143701	1,039,731

Calculate the Total Assets Turnover ratio for both years.

- **For Year 2005:**

  Total Assets Turnover Ratio = 1,493,622 / 1, 114, 3701

  = **0.134**

- **For Year 2004:**

  Total Assets Turnover Ratio = 1,403,243/ 1,039,731

  = **1.349**

FINALTERM 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

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

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

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**

Depreciation (loss of tangible asset value over time)

Deferred tax

Amortization (loss of intangible asset value over time)

Any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section.(unrealized gains/losses are also added back from the income statement)

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

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- 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

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.htmlQuestion 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

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goods sold?

- Rs. 276, 000
- Rs. 280,000
- **Rs. 254,000**
- Rs. 246,000

30000 + 250000 – 26000=254000

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

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 perations

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

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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

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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

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- May or may not change

The purchase of its own shares by the business will decrease total 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

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

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**

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- Coverage ratios
- Profitability ratios

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**

http://highered.mcgraw-hill.com/sites/0070921997/student_view0/chapter16/multiple_choice_quiz.html

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

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_6/16/4261/1090984.cw/index.html

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

Equity of Common Stockholders / Shares of Common Stock Outstanding

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(200+49800+28000)/2000 = 39

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

if a negative amount appears in the base year and a positive amount appears in the following year, or vice versa, the percentage change cannot be computed

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

Coverage ratios relate the financial charges of a firm to its ability to service, or cover, them.

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

= 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

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- 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

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

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

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**

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

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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_horngren_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**

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- 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**

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