

## MIDTERM EXAMINATION

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Fall 2009

### FIN621- Financial Statement Analysis

*Asslam O Alikum*

*FIN621- Financial Statement Analysis (Session – 3) solved by Afaaq n Shani  
Bhai with reference n numerical mcqs solved*

*Remember Me In Your Prayers*

*Best regard's*

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*If not than raise ur standard*

*That's about me ... !*

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

Which of the following principle deals with the valuation and recording of the assets at cost?

- ▶ Entity Principle
- ▶ Matching Principle
- ▶ **Cost Principle (Afaaq)**

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- ▶ Stable Currency principle

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

Which of the following is the acronym for GAAP?

- ▶ Generally Adopted Accounting Principles
- ▶ Generally Accepted Auditing Principles
- ▶ **Generally Accepted Accounting Principles (Afaaq)**
- ▶ Generally Adapted American Principles

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

How much duration does an accounting period usually have?

- ▶ Three months
- ▶ Two years
- ▶ **One year (Afaaq)**
- ▶ Five years

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

To determine the balance of a particular account, one should refer to which of the following?

- ▶ **Ledger (Afaaq)**
- ▶ Source document
- ▶ Chart of accounts
- ▶ Journal

Question No: 5 ( 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 (Afaaq)**
- ▶ Accounting cycle
- ▶ Trial balance
- ▶ Liquidity position of the company

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

Which of the following refers to the term “posting”?

- ▶ The system of giving numbers to the accounts
- ▶ **Transferring the debits and credits to ledger (Afaaq)**

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- ▶ Transferring the debits and credits to journal
- ▶ The recording of transactions

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

Which of the following is the next step after the preparation of trial balance?

- ▶ Adjusted trial balance
- ▶ Financial statements
- ▶ **Adjusting entries (Afaaq)**

#### **page 14**

- ▶ Closing entries

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

Which of the following is TRUE regarding the income statement?

- ▶ The income statement reports only revenue for which cash was received at the point of sale

- ▶ The income statement reports the financial position of a business at a particular point in time
- ▶ **The income statement is sometimes called the statement of operations (Afaaq)**
- ▶ The income statement reports revenues, expenses and liabilities

Question No: 9 ( Marks: 1 ) - Please choose one  
Which of the following principle is used for recording an expense?

- ▶ **Matching Principle (Afaaq)**

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- ▶ Cost Principle
- ▶ Realization Principle
- ▶ Objectivity Principle

Question No: 10 ( Marks: 1 ) - Please choose one  
The net income reported on the income statement is Rs. 90,000. However, adjusting entries have not been made at the end of the period for supplies expense of Rs. 2,700 and accrued salaries of Rs. 1,300. Net income, as corrected, would be:

- ▶ Rs. 87,300
- ▶ **Rs. 86,000 (Afaaq)**

**90,000 – 2700 – 1300 = 86,000**

- ▶ Rs. 88,700
- ▶ Rs. 90,000

Question No: 11 ( Marks: 1 ) - Please choose one  
Prepaid Expense is a(n) \_\_\_\_\_ account and has a \_\_\_\_\_ normal balance.

- ▶ Revenue, credit
- ▶ Liability, credit
- ▶ **Asset, debit (Afaaq)**
- ▶ Expense, debit

Question No: 12 ( Marks: 1 ) - Please choose one  
Company A owns a building. Which of the following statements regarding depreciation is FALSE from an accounting perspective?

- ▶ **As the market value of the building increases, depreciation should increase (Afaaq)**
- ▶ Depreciation is an estimated expense to be recorded each period during the building's life
- ▶ As depreciation is recorded, stockholders' equity is reduced
- ▶ As depreciation is recorded, total assets are reduced

Question No: 13 ( Marks: 1 ) - Please choose one  
A firm paid Rs. 800,000 in dividends over the last period. The beginning and ending

retained earnings account balances were Rs. 10,100,000 and Rs. 12,500,000 respectively. Assuming a 40% average tax rate, what was the firm's net income (net profit after taxes)?

- ▶ Rs. 5,333,333
- ▶ **Rs. 3,200,000 (Afaq)**

$$12,500,000 - 10,100,000 + 800,000 = 3,200,000$$

- ▶ Rs. 2,400,000
- ▶ Rs. 1,600,000

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

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

- ▶ **Cost of goods sold (Afaq)**

[http://wps.prenhall.com/ca\\_ph\\_horn gren\\_accounting\\_7/59/15164/3882016.cw/content/index.html](http://wps.prenhall.com/ca_ph_horn gren_accounting_7/59/15164/3882016.cw/content/index.html)

- ▶ Rent Expense
- ▶ Amortization Expenses
- ▶ Salaries Expense

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

Which of the following is NOT among the five main kinds of current assets?

- ▶ Cash and equivalents
- ▶ **Deferred income (Afaq)**
- ▶ Accounts receivable
- ▶ Prepaid expenses

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

When preparing a statement of cash flows under the indirect method, supplemental disclosure should be made for which of the following?

- ▶ Net cash consumed by operating activities
- ▶ Cash dividend distributions
- ▶ **Cash paid for interest and taxes (Afaq)**
- ▶ Cash paid for wages

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

Which of the following items is included in the financing activities section of the statement of cash flows?

- ▶ Cash effects of transactions involving making and collecting loans
- ▶ Cash effects of acquiring and disposing of investments and property, plant, and equipment
- ▶ **Cash effects of transactions obtaining resources from owners and providing them with a return on their investment (Afaq)**
- ▶ Cash effects of transactions that enter into the determination of net income

Question No: 18 ( 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 not sure
- ▶ Rs. 490,000
- ▶ **Rs. 495,000 (Afaaq)**

Question No: 19 ( 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 (Afaaq)**

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

Notes to financial statements are beneficial in meeting the disclosure requirements of financial reporting. The note should not be used to:

- ▶ **Correct an improper presentation in the financial statements (Afaaq)**
- ▶ Describe significant accounting policies
- ▶ Describe depreciation methods employed by the company
- ▶ Describe principles and methods peculiar to the industry ( not sure )

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

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

- ▶ Inventory account is increased
- ▶ **Inventory account is decreased (Afaaq)**

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

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

Which of the following feature is shown by the income statement for a merchandising company?

- ▶ Gross profit
- ▶ Cost of goods sold
- ▶ A sales revenue section
- ▶ **All of the given options (Afaaq)**

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

In a period of rising prices, all of the following statements regarding LIFO are true EXCEPT:

- ▶ **Net income is generally higher (Afaaq)**
- ▶ **Ending inventory is generally undervalued (not sure )**
- ▶ It can be used to manipulate net income
- ▶ Most recent inventory costs are allocated to cost of goods sold

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

From the given data, calculate Cost of Goods Sold using the FIFO costing method:

Beginning inventory is 10 units . Rs. 10 each.

On January 20, purchased 10 units . Rs. 20 each

On January 30, purchased 5 units . Rs. 30 each

15 of the 25 units are sold.

- ▶ **Rs. 200 (Afaaq)**

**1st 10 units at the rate of 10 each... total = 100 Rs.**

**2nd 5 units are rate of 20 each... total = 100 Rs.**

**Total cost 100 + 100 = 200**

- ▶ Rs. 150
- ▶ Rs. 350
- ▶ Rs. 450

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

In which of the following inventory pricing procedure, the oldest costs incurred rarely have an effect on the ending inventory valuation?

- ▶ **FIFO (Afaaq)**
- ▶ **LIFO**
- ▶ Retail
- ▶ Weighted-average

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

If beginning inventory is Rs. 60,000, cost of goods purchased is Rs. 380,000, and ending inventory is Rs. 50,000, what is cost of goods sold under a periodic system?

- ▶ **Rs. 390,000 (Afaaq)**

**380000 + 60000 - 50000 = 390000**

- ▶ Rs. 370,000
- ▶ Rs. 330,000

▶ Rs. 420,000

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

The purpose of recording depreciation on productive assets is to:

- ▶ Reflect the decline in the market value of the assets each period
- ▶ Reduce income when the company has an exceptionally profitable year
- ▶ Be in conformity with the revenue recognition principle
- ▶ **Allocate the original cost of a productive asset to expense over its useful life (Afaaq)**

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

In which of the following situations, a company should NOT record any depreciation expense on asset described?

- ▶ Computer Airline is required by law to maintain its aircraft in “as good as new” condition
- ▶ Metro Advertising owns an office building that has been increasing in value each year
- ▶ Computer Sales Company has in inventory a new type of computers, designed never to obsolete
- ▶ **None of the given option is right as depreciation is applied on all assets (Afaaq)**

Question No: 29 ( 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 (Afaaq)**

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

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

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

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

Which of the following would represent an increase in Owner's Equity?

- ▶ **Increase in net income (Afaaq)**
- ▶ Increase in assets
- ▶ Increase in accounts receivable
- ▶ Increase in cash

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

Which of the following steps of accounting cycle keep on occurring throughout the period?

▶ **Journalizing and posting the entries (Afaaq)**

- ▶ Making adjusting entries for the relevant accounts
- ▶ Preparing Trial Balance
- ▶ Preparing financial statements

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

Which one of the following items is NOT generally used in preparing a statement of cash flows?

▶ **Adjusted trial balance (Afaaq)**

- **Statement of cash flows** giving a picture of cash inflows (receipts) and cash outflows (payments) over/during the accounting period. It is prepared from the two major financial statements viz Income Statement and Balance Sheet.
  - In addition to above, notes containing additional information (financial & non-financial) about the business are also attached to financial statements.
- 
- ▶ Comparative balance sheets
  - ▶ Current income statement
  - ▶ Additional information

Question No: 34 ( 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 return of merchandise inventory to the supplier
- ▶ **Payment of freight costs for goods shipped to a customer (Afaaq)**

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

- ▶ Payment of freight costs for goods received from a supplier
- ▶ A purchase of merchandise

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

From the given information, calculate the Cost of Goods Sold using the weighted-average cost method

Beginning inventory 10 units . Rs. 10 each

On January 20, purchased 10 units . Rs. 20 each

On January 30, purchased 5 units . Rs. 30 each



15 of the 25 units are sold

▶ Rs. 200

▶ **Rs. 270 (Afaaq)**

Total Cost of units =  $(10 \times 10) + (10 \times 20) + (5 \times 30) = 450$

per unit cost = total cost / total units

$450 / 25 = 18$

cost of 15 units =  $15 \times 18 = 270$

▶ Rs. 300

▶ Rs. 350

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

Which of the following is the most common item in adjusting entries of a merchandising business?

▶ Un-earned revenue

▶ Pre-paid expense

▶ **Depreciation expense (Afaaq)**

▶ Accrued revenue

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

Closing entries result in net income being calculated in the income summary account and then transferred to which of the following account?

▶ Revenue account

▶ Common Stock account

▶ Dividends account

▶ **Owner's Capital account (Afaaq)**

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

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

▶ **Net cash flow from operating activities**

▶ Net cash flow from investing activities

▶ **Net cash flow from financing activities (Afaaq)**

▶ Net cash flow from non-cash transactions

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

Which of the following question is NOT addressed by cash flow statement?

▶ How much cash was generated by the company's operations?

▶ **Why is such a profitable company able to pay only small dividends? (Afaaq)**

▶ How much was spent for the new plants and equipment?

▶ How profitable the company's current assets are?

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

Which of the following statements is CORRECT regarding depreciation methods?

- ▶ Accumulated depreciation represents a fund being accumulated from 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 (Afaaq)**

Question No: 41 ( Marks: 5 )

Security Service Company adjusts its accounts at the end of the month. On November 30, adjusting entries are prepared to record:

- a. Depreciation expense for November
- b. Interest expense that has accrued during November
- c. Revenue earned during November that has not yet been billed to customers
- d. Salaries, payable to company employees that have accrued since the last pay day in November
- e. The portion of the company's prepaid insurance that has expired during November

[Adjusting Entries For The Month Ended Nov 30](#)

Requirement:

Indicate the effect of each of these adjusting entries on the major elements of the company's income statements i.e. upon revenue, expenses, net income. Organize your answer in the table given below and use the symbols I for increase, D for decrease, and NE for no effect.

Adjusting entry Revenue Expenses Net income

	Adjusting entries	Revenue	Expenses	Net income
a	Depreciation expense Accumulated depreciation	Decrease	Increase	Decrease
b	Interest expense Accrued interest	Decrease	Increase	Decrease
c	Accrued revenue revenue	Increase	Decrease	Increase
d	Salaries Accrued salaries	Decrease	Increase	Decrease
e	Prepaid insurance	Increase	Decrease	Increase

	Insurance			
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Question No: 42 ( Marks: 5 )

Olympic Inc., had the following cash flows during the current year:

Cash received from customers Rs. 240,000  
Interest and dividend received 50,000  
Proceeds from the sale of the plant assets 330,000  
Cash paid to suppliers and employees 127,000  
Cash paid for the purchase of investments 45,000  
Cash paid for the purchase of treasury stock 36,000

**Cash inflow**

Cash received from customers Rs.	240,000	
Interest and dividend received	50,000	
Proceeds from the sale of the plant assets	330,000	
	-----	620,000

**Less Cash outflow**

Cash paid to suppliers and employees	127,000	
Cash paid for the purchase of investments	45,000	
Cash paid for the purchase of treasury stock	36,000	208,000
		-----
Cash flow during the year		412,000

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