

MIDTERM EXAMINATION

Fall 2009

FIN621- Financial Statement Analysis (Session - 4)

Aslam O Alikum

FIN621- Financial Statement Analysis mid term paper shared n rechecked by Hira Ali

Remember Us In Your Prayers

Best regard's

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If u like me than raise your hand with me

If not than raise ur standard

That's about me ... !

Shared By: Hira Ali

Time: 60 min

Marks: 50

Question No: 1 (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 (Correct)**
- ▶ **Generally Adapted American Principles**

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

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

- ▶ **Trial Balance**
- ▶ **Financial Statements**
- ▶ **Ledger (Correct)**
- ▶ **After-closing Trial Balance**

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

Which one of the following is the second step in the accounting cycle?

- ▶ Recording entries in the journal
- ▶ Analyzing the business transaction
- ▶ **Posting the entries to the ledger (Correct)**
- ▶ Making the adjusting entries

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

Which of the following is the basic function of the Trial Balance?

- ▶ **To prove the equality of debits and credits (Correct)**
- ▶ To check the balance of all assets
- ▶ To prepare the balance sheet
- ▶ To check the validity of accounts

Question No: 5 (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 (Correct)**
- ▶ Transferring the debits and credits to journal
- ▶ The recording of transactions

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

Which of the following results are summarized by the income statement of a company?

- ▶ **Operating results (Correct)**
- ▶ Economic results
- ▶ Auditing results
- ▶ Marketing results

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

Which of the following is an example of an accrual?

- ▶ Equipment purchased for use in the business

- ▶ Book-keeping fees collected but not yet earned
- ▶ Six months' rent paid in advance
- ▶ **Interest earned but not yet received (Correct)**

Question No: 8 (Marks: 1) - Please choose one
Prepaid Expense is a(n) _____ account and has a _____ normal balance.

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

Question No: 9 (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 (Correct)**
- ▶ 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: 10 (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 (Correct)**
- ▶ Dividends payment
- ▶ Investment by the stockholders

▶ Net Loss

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

The revenue account “Fees Income” is closed by which of the following entry?

▶ Cash – Debit; Fees Income - Credit

▶ Fees Income – Debit; Income Summary – Credit (Correct)

▶ Capital – Debit; Fees Income - Credit

▶ Income Summary – Debit; Fees Income - Credit

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

Which of the following regarding retained earnings is FALSE?

▶ Retained earnings represent earnings not distributed to stockholders

▶ Retained earnings is increased by net income and decreased by a net loss

▶ Retained earnings are a component of stockholders’ equity on the balance sheet

▶ Retained earnings are an asset on the balance sheet (Correct)

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

Current assets are those assets which management intends to convert into cash or consume within:

▶ The operating cycle

▶ One year

▶ The longer of operating cycle or one year (Correct)

▶ The shorter of operating cycle or one year

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

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

Decision makers compare net income to net cash from operating activities. To make these amounts more comparable, the same accounts are included in each. The following accounts are used to compute both net income and net cash from operating activities EXCEPT:

- ▶ Interest expense
- ▶ Dividend revenue
- ▶ Interest revenue
- ▶ Dividends declared and paid (Correct)

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

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

If the indirect approach for the statement of cash flows is used, which of the following items should be subtracted from accrual basis net income to derive cash flow from operating activities?

- ▶ Losses on the sale of long-term investments
- ▶ Depreciation expense
- ▶ Amortization expense
- ▶ Gains on the sale of long-term investments (Correct)

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

The cash flow from financing activities shows:

- ▶ The cash outflow due to loan interest payments being made
- ▶ The change in the level of bank balances in the period
- ▶ The cash flow from share and loan issues and repayments (Correct)
- ▶ Cash dividends paid to shareholders

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

Which of the following transaction should be classified as a financing activity?

- ▶ Purchase of equipment
- ▶ Purchase of treasury stock (Correct)
- ▶ Sale of trademarks
- ▶ Income tax refund

Question No: 18 (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 (Correct)**
- ▶ Investments
- ▶ Debt financing

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

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

- ▶ A decrease in accrued liabilities
- ▶ A decrease in Salaries Payable
- ▶ Payment of long-term debt
- ▶ **An increase in Accounts Payable**

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

Question No: 20 (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.

▶ **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
- ▶ Revenues earned and received in cash.
- ▶ Non-cash expenses (expenses incurred but not paid) reported on the income statement-one example is amortization expense.

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

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

Investing activities include all of the following EXCEPT:

- ▶ Payment of debt
- ▶ Collection of loans
- ▶ Making of loans
- ▶ **Sale of available for sale and held to maturity securities**

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

If sales on an accrual basis are Rs. 500,000 and accounts receivables increased by Rs. 30,000, the cash received from the customers would be:

▶ Rs. 500,000

▶ **Rs. 470,000**(500,000-30,000) **Correct**

▶ **Rs. 530,000**

▶ Can not be found from the given information

Question No: 23 (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** **Correct**

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

Which one of the following is NOT an inventory costing method?

▶ FIFO cost method

▶ Weighted-average cost method

▶ **Specific unit cost method** **Correct**

▶ LIFO cost method

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

When merchandise is purchased in a periodic inventory system, its cost is debited to _____ account.

▶ Inventory

▶ Inventory expense

▶ **Purchases** **Correct**

▶ Cost of goods sold

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

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

▶ Debit - Purchases; Credit - Cash

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

▶ Debit - Office Supplies; Credit - Accounts Payable **Correct**

▶ Debit - Merchandise Inventory; Credit - Accounts Payable

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

An inventory error affects _____ accounting periods.

▶ Only current

▶ **Two Correct**

▶ Three

▶ Four

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

Equipment costing Rs. 3,000 with accumulated depreciation of Rs. 2,125 is exchanged for another asset with a fair value of Rs. 625. The exchange has commercial substance. How much is the gain or loss on this transaction?

▶ A gain of Rs. 250 should be recognized

▶ **A loss of Rs. 250 should be recognized**

▶ A loss of Rs. 500 should be recognized

▶ No gain or loss should be recognized

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

Which of the following asset does NOT have a depreciation expense?

▶ Furniture

▶ Building

▶ Plant & equipment

▶ **Land Correct**

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

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

- ▶ **Straight-line method** Correct
- ▶ Sum-of-the-years digit method
- ▶ Double-declining balance method
- ▶ Modified Accelerated Cost Recovery System

Question No: 31 (Marks: 1) - Please choose one
Accelerated depreciation method is mostly used for _____.

- ▶ Financial statements
- ▶ Assets valuation
- ▶ Inventory valuation
- ▶ **Income tax returns** Correct

Question No: 32 (Marks: 1) - Please choose one
Which of the following is NOT an example of deferred item?

- ▶ Depreciation
- ▶ **Accounts payable** Correct
- ▶ Unearned revenue
- ▶ Prepaid insurance

Question No: 33 (Marks: 1) - Please choose one
Assets which have NO market value are called:

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

Question No: 34 (Marks: 1) - Please choose one
Which of the following accounts will be debited, when increased?

- ▶ Liabilities and expenses
- ▶ Assets and equity

- ▶ **Assets and expenses** Correct
- ▶ Equity and revenues

Question No: 35 (Marks: 1) - Please choose one
Which of the following provides the basis for the trial balance?

- ▶ Income statement
- ▶ Statement of cash flow
- ▶ **Ledger** Correct

- ▶ Adjusting entries

Question No: 36 (Marks: 1) - Please choose one
The income statement of ABL shows other operating expenses of Rs. 30 million; prepaid insurance expense increased by Rs. 4 million; and accrued utilities payable decreased by Rs. 7 million. How much did the company pay in other operating expenses?

- ▶ **Rs. 41 million** (30+4+7) Correct
- ▶ Rs. 33 million
- ▶ Rs. 27 million
- ▶ **Rs. 19 million**

Ref:

Cash payment for operating expenses = Operating expenses + Increase in pre-paid insurance + decreased in accrued utilities

Cash payment for operating expenses = (30+4+7)

Question No: 37 (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**
- ▶ Rs. 300
- ▶ Rs. 350

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

Which of the following balances does the Contra-Asset account show typically?

▶ **Credit** Correct

- ▶ Debit
- ▶ Negative
- ▶ Positive

Question No: 39 (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** (200,000-10,000-20,000-50,000) Correct

▶ Rs. 130,000

▶ Rs. 180,000

Question No: 40 (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?
- ▶ How much was spent for the new plants and equipment?
- ▶ **How profitable the company's current assets are?** Correct

Question No: 41 (Marks: 5)

On 15, 2001, ABC Company sold 1,000 printers to another company. Immediately prior to this sale, the perpetual inventory records of the company for the printers included the following cost layers.

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Total on hand 1,500 Rs. 14,100

Instructions:

Prepare a separate general entry to record the cost of printers, assuming that the company uses the following methods.

FIFO method

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Cost of sales of 1000 printers

Sale date	Quantity	Unit Cost	Total Cost
15,2001	600	Rs. 9.25	Rs. 5,550
15,2001	400	Rs. 9.50	3,800

			9,350

Cost of Printers Sold A/C	9350
Printers Inventory A/C	9350

LIFO method

Purchase date	Quantity	Unit Cost	Total Cost
Dec. 12, 2000	600	Rs. 9.25	Rs. 5,550
Jan. 9, 2001	900	Rs. 9.50	8,550

Cost of sales of 1000 printers

Sale date	Quantity	Unit Cost	Total Cost
15,2001	900	Rs. 9.50	8,550
15,2001	100	Rs. 9.25	Rs. 925

			9475

Cost of Printers Sold A/C	9475
Printers Inventory A/C	9475

Question No: 42 (Marks: 5)

Hill Company adjusts its accounts at the end of each month. Prepare the adjusting entries required at December 31 based on the following information.

a. A bank loan had been obtained on December 1. Accrued interest on the loan at December 31 amounts to Rs. 1,050. No interest expense has yet been recorded.

Answer

Interest Expense A/C	1050
Accrued interest A/C	1050

b. Depreciation of the office equipment is based on an estimated life of five years. The balance in the office equipment account is Rs. 24,000; no change has occurred in the account during the year.

Depreciation expense	4800
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To accumulated depreciation 4800

c. Interest revenue earned on US government bonds during December amounts to Rs. 750. This accrued interest revenue has not been recorded or received as of December 31.

Interest Receivable on Bonds A/C 750
Interest Income on Bonds A/C 750

OR

accrued interest 750
interest income 750

d. On December 31, an agreement was signed to lease a truck for 12 months beginning January 1 at a rate of 35 cents per mile. Usage is expected to be 2,000 miles per month, and the contract specifies a minimum payment equivalent to 18,000 miles a year.

Accrued lease rent 630,000
Lease rent 630,000

e. The company's policy is to pay all employees up-to-date each Friday. Since December 31 fell on Monday, there was a liability to employees at December 31 for one day's pay amounting to Rs. 2,800.

Salary Expense 2800
Salary Payable 2800

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Best regard's

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