

MIDTERM EXAMINATION
Spring 2010
FIN621- Financial Statement Analysis (Session - 3)

Shared By: Hira Ali

Time: 60 min

Marks: 44

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

How much duration does an accounting period usually have?

▶ Three months

▶ Two years

▶ One year **Correct**

▶ Five years

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

Balance Sheet and Accounting Cycle are based on which of the following?

▶ Adjusting entries

▶ Closing entries

▶ Financial position

▶ Accounting Equation **Correct**

Question No: 3 (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 **Correct**

▶ Closing entries

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

Which of the following errors are identified during the preparation of trial balance?

▶ Recording transactions in the wrong account

▶ Duplication of a transaction in the accounting records

▶ Posting only the debit portion of a particular journal entry **Correct**

▶ Recording the wrong amount for a transaction to both the accounts

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

Which of the following is **NOT** an advantage of the Trial Balance?

▶ It ensures that the all accounts have identical debits and credits

▶ It ensures that the balance of each ledger account has been computed correctly

▶ The debit and the credit columns of trial balance have been added up correctly

▶ All the transactions have been recorded and nothing has been omitted **Correct**

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

Cost of a building is Rs. 90,000 and its estimated useful life is 30 years. What will be the depreciation expense of this building for one month by using straight line depreciation method?

▶ Rs. 600

▶ Rs. 250 **Correct**

▶ Retained earnings are an asset on the balance sheet**Correct**

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

Which of the following would be considered a cash-flow item from a "financing" activity?

▶ A cash outflow to the government for taxes

▶ A cash outflow to repurchase the firm's own common stock**Correct**

▶ A cash outflow to lenders as interest

▶ A cash outflow to purchase bonds issued by another company

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6679/1709885.cw/content/index.html

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

'Equity dividends' shown in the cash flow statement will comprise:

▶ All company dividends paid during the year

▶ All dividends paid to voting shares in the year**Correct**

▶ All dividends paid and proposed in the year relating to voting shares

▶ All proposed dividends in the year relating to voting shares

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

Which of the following activities convert the income statement items from the accrual basis of accounting to cash?

▶ Operating activities**Correct**

▶ Investing activities

▶ Financing activities

▶ Non cash activities

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

The balance sheet reported a beginning balance of Rs. 20,000 in Accounts Receivable and an ending balance of Rs. 15,000. The income statement reported Sales Revenue of Rs. 200,000. Using this information, compute cash collected from customers.

▶ Rs. 205,000**Correct**

▶ Rs. 215,000

▶ Rs. 195,000

▶ Rs. 200,000

sales 200000
beginning balance 20000

total 220000
less ending 15000

cash received from customer = 205000

Question No: 14 (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 **Correct**
- ▶ Payments to suppliers
- ▶ Receipts from sale of goods or services

CASH FLOW FROM INVESTING ACTIVITIES

Principle repayment by borrowers (note the interest receipt on the loans cash includes in operating activities)

The sale of loan (receivable) made by the firm

The sales of assets such as debt of equity securities of other firms (other than cash equivalent), and property, plant, and equipment

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

When cash flow statement is prepared by using indirect method, which part of it is different from the direct method?

- ▶ Cash flow from investing activities
- ▶ Cash flow from financing activities
- ▶ Cash flow from operating activities **Correct**
- ▶ All parts are same in both methods

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

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

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

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

Which of the following must be included in a company's summary of significant accounting policies in the notes to the financial statements?

- Description of current year equity transactions
- Summary of long-term debt outstanding
- Schedule of fixed assets
- Revenue recognition policies **Correct**

Question No: 18 (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: 19 (Marks: 1) - Please choose one

In a perpetual inventory system, which of the following would be debited when inventory is sold on account?

- Cost of goods sold **Correct**
- Merchandise inventory
- Sales
- Both Accounts receivable & cost of goods sold (Correct)**

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

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

- An increase in advertising expense
- A decrease in depreciation expense
- An increase in cost of goods sold **(Correct)**
- A decrease in insurance expense

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

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

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

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

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

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

_____ **Question No: 22 (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 **(Correct)**

_____ ▶ A decrease in income tax rates

_____ ▶ A decrease in accounts receivable over the period

_____ **Question No: 23 (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 **(Correct)**

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

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

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

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

_____ ▶ Debit Supplies Expense Rs. 1100; Credit Supplies on Hand Rs. 1100 **(Correct)**

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

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

_____ The balance of the Unearned Rent Account for Jones Co. as on Dec 31 is Rs.1,

200. If Jones Co. failed to record the adjusting entry for Rs.600 of rent earned during December, the effect on the Balance Sheet and Income Statement for December will be:

- ▶ Assets understated by Rs.600; net income overstated by Rs.600
- ▶ Liabilities overstated by Rs.600; net income understated by Rs.600 **(Correct)**
- ▶ Liabilities understated by Rs.600; net income understated by Rs.600
- ▶ Liabilities overstated by Rs.600; net income overstated by Rs.600

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

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

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

Question No: 27 (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 (Correct)**

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

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

- ▶ Rs. 276, 000 **(Correct)**
- ▶ Rs. 280,000
- ▶ Rs. 254,000
- ▶ Rs. 246,000

Question No: 29 (Marks: 3)

Assume that net income was Rs. 200,000, depreciation expense was Rs. 10,000, accounts receivable increased by Rs. 15,000, and accounts payable increased by Rs. 5,000. Calculate the cash flow from operating activities.

A. **Net Cash Flow from Operating Activities 200000Rs.**

Net income	200,000
Added back	
Deprecation	10,000
Increase in account receivable	(15,000)

Increase in Account payable 5000

net cash flow from OP activity 200,000

Same Question solved by Hira:

Cash flow from operating activities= Net income- Depreciation- Increase in A/Cs receivable- Increase in A/Cs payable

Cash flow from operating activities= 200,000-10,000-15,000-5,000

Cash flow from operating activities= =170,000 =Answer Correct

Question No: 30 (Marks: 3)

Explain how the adoptions of FIFO method rather than LIFO will tend to raise or lower the quality of a company's earnings? Assume the continuance of the inflation.

Answer

During the period of inflation, prices increase. Under the **FIFO** method, valuation of closing inventory is made at most recent prices or at increased prices and closing inventory is shown at the credit side of trading & P&L account (income statement) with increased value, as a result of which net income of the company increases because of increase in the value of closing inventory ultimately company's earnings increases. Where as under the **LIFO** method company's earnings decreases because of decrease in the value of closing inventory

Question No: 31 (Marks: 5)

Nestle Pakistan has two conflicting objectives. Management wants to report the highest possible earnings to stockholders in the near future yet also wants to minimize the taxable income. Indicate the depreciation method that the company will probably use in its financial statements and its federal income tax return. Explain your answer with the reasons.

Answer

Accelerated deprecation method will increase the earnings of stockholders and defer the tax liability to far future years and current tax liability will be minimum in near future.

Question No: 32 (Marks: 5)

Patterson Company reported net income for the current year of Rs. 666,000. During the year the company's accounts receivable increased by Rs. 50,000, inventory decreased by Rs. 23,000, accounts payable decreased by Rs. 55,000, pre-paid expenses increased by Rs. 35,000, and accrued expenses payable increased by Rs. 14,000. Determine the amount of cash provided by or used for operating activities by the indirect method.

Net income 666,000
Accounts receivable increased (50,000)

Inventory decreased	23,000
Pre-paid expenses increased	(35,000)
Accounts payable decreased	(55,000)
Accrued expenses payable increased	14,000

net cash from OP activities **563,000**

Same Question Solved BY Hira:

Cash flow from operating activities= Net income – Increase in A/Cs
receivable – Decrease in inventory + decrease in A/Cs payable + Increase in
pre-paid expenses- Increase in accrued expenses

Cash flow from operating activities=666,000-50,000-23,000+55,000+35,000-
14,000

Cash flow from operating activities=669,000= **Answer Correct**

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Ali

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