

FINALTERM EXAMINATION

FIN621- Financial Statement Analysis (Session - 1)

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

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

- ▶ Sequentially
- ▶ Alphabetically
- ▶ **Monthly**
- ▶ Orderly

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

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

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

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

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

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

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

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

- ▶ Net Income
- ▶ **Dividends payment**
- ▶ Investment by the stockholders
- ▶ Net Loss

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

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

- ▶ The payment of dividends is not directly related to the profits of a given period
- ▶ Shareholders can individually decide on their distributions
- ▶ **To receive a corporate dividend, stock must be owned on the date of declaration**
- ▶ Corporate dividends reduce contributed capital and therefore, stockholders' equity

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

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

- ▶ Cost of goods sold
- ▶ Rent Expense
- ▶ Amortization Expense
- ▶ **Salaries Expense**

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

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

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

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

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

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

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

- ▶ An increase in the sale of luxury items
- ▶ **An increase in the use of “discount pricing” to sell merchandise**

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**
- ▶ Net sales

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

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

- ▶ **It provides complete basis for the analysis of a company**
- ▶ Past financial performance does not signify what will happen with the investor in future
- ▶ The financial statements are useless without the notes to the financial statements
- ▶ Unless the statements are audited their authenticity is under doubt

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

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

- ▶ Distributive
- ▶ Callable
- ▶ **In arrears**
- ▶ Cumulative

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
- ▶ 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%**

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**

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

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

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

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

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

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

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

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

- ▶ **Liquidity**
- ▶ Turnover
- ▶ Profitability
- ▶ Other indicator

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**

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

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

- ▶ 30%
- ▶ **60%**
- ▶ 50%
- ▶ 45%

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

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

- ▶ **1.39**

- ▶ 1.23
- ▶ 1.65
- ▶ 0.89

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

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

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

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

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

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

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

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

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

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

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

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

- ▶ It is simple to see what payments to vendors are outstanding

- ▶ It is easy to see how much revenue is due the company
- ▶ It is much easier to assess the overall financial health of the company
- ▶ **It is much easier and cheaper to maintain**

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

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

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

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

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

- ▶ **Equity**
- ▶ Income
- ▶ Expense
- ▶ Disclosures

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

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

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

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

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

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

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

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

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

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
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

$$\begin{aligned} &= 640,000 / [(55,000+57,000)/2] \\ &= 640,000 / 56,000 \\ &= 11.43 \end{aligned}$$

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.

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)	92,000	Market Price	18
Interest expense	30,000		

On the basis of above information, calculate the following.

- Debt ratio (4)
- Debt to equity ratio (2)
- 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.