

THE SOCIETY OF ACCOUNTING EDUCATION
CERTIFIED FINANCIAL & MANAGEMENT ACCOUNTANT MEMBERSHIP
PROGRAM

Model Paper for Course : Business Trend Analysis

Course Code: CL-02

Level: Certification Level

1. Which of the following section of cash flow statement shows the cash effects of those transactions reported in the income statement?
 - a) Cash flow from investing activities
 - b) Cash flow from financing activities
 - c) **Cash flow from operating activities**
 - d) All parts show effects of different transactions of income statement

2. If we take goods for own use we should:
 - a) **Debit - Drawings Account: Credit - Purchases Account**
 - b) Debit - Drawings Account: Credit - Stock Account
 - c) Debit - Purchases Account: Credit - Drawings Account
 - d) Debit - Sales Account: Credit - Stock Account

3. The income statement of the UBL shows the interest revenue of Rs. 6,000, and the amount of accrued interest receivable has increased from Rs. 3000 to Rs. 4000 during the year. Calculate the amount of interest received.
 - a) Rs. 7000
 - b) **Rs. 5000**
 - c) Rs. 8000
 - d) Rs. 1000

4. Which of the following is an example of an accrual?
 - a) Equipment purchased for use in the business
 - b) Book-keeping fees collected but not yet earned
 - c) Six months' rent paid in advance
 - d) **Interest earned but not yet received**

5. Net current assets are equivalent to:
 - a) Stock plus debtors plus cash
 - b) Current liabilities less current assets
 - c) **Working capital**
 - d) Fixed assets plus current assets less current liabilities

6. Accounting is called the "language of business" because_____:
 - a) It communicates the financial information to the Management only

- b) In order to run a business one must have knowledge about accounting
 - c) Different business accounts are involved in financial statements
 - d) **It helps to organize and communicate financial information to end users**
7. In which of the following account, a credit balance would be an evidence for a mistake or an error?
- a) Mr. A Capital Account
 - b) Cash account
 - c) **Notes payable account**
 - d) Drawings account
8. Which of the following represents the main step(s) of accounting cycle?
- a) Recording the transactions
 - b) Classifying the transactions
 - c) Ordering, summarizing, counting the transactions
 - d) **Recording, classifying, summarizing transactions**
9. A company purchased the land in exchange for the capital stock; it would affect which of the following?
- a) Cash flow from operating activities
 - b) Cash flow from investing activities
 - c) Cash flow from financing activities
 - d) **It would not affect any section**
10. Primary purpose of the cash flows statement is to provide the information about:
- a) Errors or discrepancies between cash book and income statement
 - b) **Receipts and payments of cash in the period**
 - c) Non cash adjustment that effect the income statement
 - d) Cash paid to the customers and creditors of the business
11. Cash has been described as:
- a) The lifebuoy of the business
 - b) The lifeboat of the business
 - c) The lifeline of the business
 - d) **The lifeblood of the business**
12. If a company has paid dividends on its preference shares, under which one of the cash flow statement headings would they appear?
- a) **Returns on investments and servicing of finance**
 - b) Financing
 - c) Equity dividends paid
 - d) Capital investment and financial investment
13. Which of the following is the third step of accounting cycle?
- a) Preparing financial statements
 - b) Preparing trial balance

- c) **Posting**
 - d) Making adjusting entries
14. Which of the following term refers to each element of the Balance Sheet?
- a) Ledger
 - b) Journal General
 - c) T- Account
 - d) **Account**
15. Which of the following is the most common adjusting entry?
- a) Un-earned revenue
 - b) Pre-paid expense
 - c) **Depreciation expense**
 - d) Accrued revenue
16. Which of the following account would NOT be closed to the income summary account at the end of a period?
- a) Rent expense
 - b) **Revenue earned**
 - c) Wages expense
 - d) Accumulated depreciation
17. How the transactions in a journal are initially recorded?
- a) Alphabetical order
 - b) Ascending order
 - c) **Chronological order**
 - d) Alphanumeric order
18. The true and fair presentation of the financial statements depends, among other things, upon which of the following?
- a) Strong financial position
 - b) **Concept of materiality**
 - c) Matching principle
 - d) Realization principle
19. Use the following information to calculate net cash from investing activities: sell a capital asset for Rs. 10,000 cash and a Rs. 1,000 gain; purchase a bond investment for Rs. 16,000; receive Rs. 2,000 interest payment from the bond investment; and pay off a Rs. 3,000 mortgage payable.
- a) Rs. 6,000 net cash
 - b) **Rs. 4,000 net cash**
 - c) Rs. 5,000 net cash
 - d) Rs. 9,000 net cash
20. Which one of the following statement shows the effects of cash inflows and outflows?
- a) Balance Sheet

- b) Statement of Owner's Equity
 - c) Income Statement
 - d) **Statement of Cash Flows**
21. Journal entries are done at the end of the accounting period for which type of accounts?
- a) Assets and liabilities
 - b) Office supplies and office equipment
 - c) **Raw material and office supplies**
 - d) Depreciation and expenses
22. Which one of the following is usually classified as an inventory item? :
- a) **Goods purchased for resale to customers**
 - b) Items purchased and used by the company such as office supplies
 - c) Items purchased for a specific customer job
 - d) Items purchased and the quantity on hand does not need to be tracked
23. In the long run, a business must generate positive net cash flow from which of the following activities, if it is to survive?
- a) Investing activities
 - b) Financing activities
 - c) **Operating activities**
 - d) Non cash activities
24. If the estimated amount of depreciation on equipment for a period is Rs.2000, the adjusting entry to record depreciation would be:
- a) Depreciation expense - Debit; Equipment - Credit
 - b) **Depreciation expense - Debit; Accumulated depreciation - Credit**
 - c) Equipment - Debit; Depreciation expense - Credit
 - d) Accumulated depreciation - Debit; Depreciation expense - Credit
25. According to _____ the personal expenses paid by Mr. A from his own pocket would not be recorded in business books of account.
- a) Realization principle
 - b) **Separate entity principle**
 - c) Matching principle
 - d) Materiality principle
26. Financial statements are a subset of which of the following?
- a) **Financial reporting**
 - b) Financial statement analysis
 - c) Accounting information
 - d) Accounting system
27. Which of the following account will appear in the post-closing trial balance?
- a) **Owner's Capital**
 - b) Service Fees Earned

- c) Income Summary
 - d) Owner's Withdrawals
28. When cash flow statement is prepared by using indirect method, which part of it is different from the direct method?
- a) Cash flow from investing activities
 - b) Cash flow from financing activities
 - c) **Cash flow from operating activities**
 - d) All parts are same in both methods
29. Which of the following people and groups are NOT interested in cash flow statements of a company?
- a) Accounting personnel
 - b) **Potential customers**
 - c) Potential creditors
 - d) Potential employees
30. Which of the following is an example of an accrual?
- a) Equipment purchased for use in the business
 - b) Book-keeping fees collected but not yet earned
 - c) Six months' rent paid in advance
 - d) **Interest earned but not yet received**
31. Which one of the following transactions should be classified as a financing activity?
- a) Purchase of equipment
 - b) **Purchase of treasury stock**
 - c) Sale of trademarks
 - d) Income tax refund
32. Accelerated depreciation method is mostly used for _____.
- a) **Financial statements**
 - b) Assets valuation
 - c) Inventory valuation
 - d) Income tax returns
33. Depreciation is added back to profit when arriving at the cash flow from operating activities because:
- a) **Depreciation is only an estimated amount**
 - b) Depreciation does not affect profit
 - c) Depreciation does not result in a flow of cash
 - d) Depreciation only affects the balance sheet, not the profit and loss account
34. To find the value of closing stock at the end of a period we:
- a) Deduct opening stock from cost of goods sold
 - b) Look in the stock account
 - c) Deduct cost of goods sold from sales

- d) **Do this by stocktaking**
35. Even though LIFO generally results in lower reported earnings, firms will use LIFO which of the following reasons?
- a) Decreased cash flows from higher taxes
 - b) **Increased cash flows from lower taxes**
 - c) Increased cash flows from higher taxes
 - d) Decreased cash flows from lower taxes
36. Identify the statement that is NOT true about the Incomes Account and Expenses Account:
- a) These are the temporary accounts
 - b) These are closed in Income summery account
 - c) These may included in closing trial balance
 - d) **These are also known as Nominal Accounts**
37. Which of the following terms present a cause and effect relationship with each other?
- a) Income statement and balance sheet
 - b) Revenue and assets
 - c) Assets and liabilities
 - d) **Revenues and expenses**
38. Which of the following company would like to use the accelerated depreciation method?
- a) **A company with large tax burdens**
 - b) A company with low tax burdens
 - c) A company that wan to report high net income
 - d) A company that want to report huge assets
39. The cash flow from investing activities shows the cash effects of which of the following?
- a) Income statement items
 - b) **Long term assets items**
 - c) Long term liability & stockholder's equity
 - d) Long term liability and long term assets
40. Pre-paid expense is a(n) _____ type of account.
- a) Liability
 - b) **Assets**
 - c) Revenue
 - d) Expense
41. Which of the following should NOT be called "Sales"?
- a) Goods sold for cash
 - b) **Office fixtures sold**
 - c) Goods sold on credit
 - d) Sale of item previously included in 'Purchases'

42. Which of the following is true about "After closing trial balance"?
- a) It may consist of balances of only Real and Personal accounts
 - b) **It may consist of balances of only Nominal and Real accounts**
 - c) It may consist of balances of Nominal, Real and Personal accounts
 - d) It may consist of balances of only Nominal and Personal accounts
43. Audit opinions can NOT be classified as which of the following?
- a) Adverse opinion
 - b) Unqualified opinion
 - c) Qualified opinion
 - d) **Disagreement of opinion**
44. Which of the following is an inventory pricing procedure in which the oldest costs incurred rarely have an effect on the ending inventory valuation?
- a) **FIFO**
 - b) LIFO
 - c) Specific identification
 - d) Weighted-average
45. The users of a statement of cash flows usually are interested in:
- a) Net cash flow from operating activities
 - b) Net cash flow from investing activities
 - c) **Net cash flow from financing activities**
 - d) Net cash flow from non-cash transactions
46. Which one of the following is the most common type of opinion given by the auditor?
- a) Unqualified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) **Disclaimer of opinion**
47. Which of the following is a special temporary account used to close all of the revenue and expense accounts?
- a) Close-out Summary
 - b) Owner's Capital
 - c) **Income Summary**
 - d) Temporary Summary
48. End product of the accounting cycle is known as the_____
- a) Tax return
 - b) **Financial statements**
 - c) Auditor's annual report
 - d) Annual general meeting
49. Which of the following is NOT one of the four basic financial statements?
- a) Balance sheet

- b) **Audit report**
 - c) Income statement
 - d) Statement of cash flows
50. Which of the following is NOT a cash outflow for the firm?
- a) **Depreciation expense**
 - b) Dividends payments
 - c) Interest payments
 - d) Tax payments
51. Which of the following principle states that the assets are purchased for the use and not for resale purpose?
- a) Stable Currency principle
 - b) Objectivity Principle
 - c) **Going-concern principle**
 - d) Cost Principle
52. Which of the following expenses would normally be classified as Other or Non Operating Expense on a multiple-step income statement?
- a) **Interest expense**
 - b) Depreciation expense
 - c) Insurance expense
 - d) Salaries expense
53. Which of the following would be considered a cash-flow item from an "operating" activity?
- a) **Cash outflow to the government for taxes**
 - b) Cash outflow to shareholders as dividends
 - c) Cash inflow to the firm from selling new common equity shares
 - d) Cash outflow to purchase bonds issued by another company
54. Which of the following principle provides the definite and factual basis for assets valuation?
- a) Stable Currency principle
 - b) **Objectivity Principle**
 - c) Matching Principle
 - d) Cost Principle
55. The basic purpose of financial statements is to assist users in evaluating the_____
- a) Financial position
 - b) Profitability of an organization
 - c) Future prospects
 - d) **All of the given options**
56. The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were:

- a) Less than current market value
 - b) Greater than cost
 - c) Greater than book value
 - d) **Less than book value**
57. The appropriate journal entry to record equipment depreciation expense would consist of a debit to Depreciation Expense and a credit to which of the following accounts?
- a) Equipment
 - b) **Accumulated Depreciation: Equipment**
 - c) Retained Earnings
 - d) Cash
58. Which of the following truly represents expenses?
- a) **Future benefits**
 - b) Past results
 - c) Cost of doing business
 - d) Past receipts
59. Capital assets of Rs. 120,000 were purchased for cash. A capital asset was sold at a gain of Rs. 40,000. Amortization expense was Rs. 138,000. What amount would appear on the Cash Flow Statement as "Sale of Capital Asset?"
- a) **Rs. 40,000**
 - b) Rs. 130,000
 - c) Rs. 170,000
 - d) Rs. 225,000
60. 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:
- a) **Dividends declared and paid**
 - b) Dividend revenue
 - c) Interest expense
 - d) Interest revenue
61. Which of the following refers to the term "posting"?
- a) The recording of transactions
 - b) The system of giving numbers to the accounts
 - c) **Transferring the debits and credits to ledger**
 - d) Transferring the debits and credits to journal
62. The definition of cash as used in "Cash Flow Statements" includes:
- a) Only cash balances
 - b) Only bank balances
 - c) Bank balances and bank overdrafts
 - d) **Cash in hand plus bank balances less bank overdrafts**

63. Which of the following principle is used for recording revenue?
- Matching Principle**
 - Cost Principle
 - Realization Principle
 - Objectivity Principle
64. An entry that effects more than one accounts is knows as _____.
- Journal entry
 - Compound entry**
 - Adjusting entry
 - Reversing entry
65. Which of the following auditor's opinion shows the inability of the auditor to audit the accounts of a business?
- Qualified Opinion
 - Adverse Opinion
 - Unqualified Opinion
 - Disclaimer of Opinion**
66. Which of the following is the largest single expense of most merchandising firms?
- Cost of goods sold**
 - Rent Expense
 - Amortization Expense
 - Salaries Expense
67. Which of the following type of reports is most frequently used by external users, such as investors?
- Financial Statements**
 - Tax Forms
 - Management Reports
 - Audit reports
68. Which of the following best describes the meaning of the term "Purchases"?
- Goods bought on credit
 - Goods paid
 - Goods bought for resale**
 - Items bought
69. All of the following accounts would be closed in Income Summery Account EXCEPT:
- Commission earned account
 - Prepaid insurance**
 - Salaries Expense account
 - Wages account

70. Which of the following is NOT one of the three items required to be shown in the heading of a financial statement?
- a) The preparation date of the financial statement
 - b) The title of the financial statement
 - c) **The unit of measure in the financial statement**
 - d) The name of the business entity
71. If a company has paid dividends on its preference shares, under which one of the cash flow statement headings would they appear?
- a) **Returns on investments and servicing of finance**
 - b) Financing
 - c) Equity dividends paid
 - d) Capital investment and financial investment
72. Which of the following arrangement is used to maintain the accounts?
- a) Sequentially
 - b) Alphabetically
 - c) Monthly
 - d) **Orderly**
73. Which of the following is NOT a qualitative characteristic of financial statements?
- a) Understandability
 - b) Relevance
 - c) **Full disclosure**
 - d) Comparability
74. Statement of cash flows helps the investors and other stake holders to assess:
- a) The ability to generate future cash flows
 - b) The liquidity of the business
 - c) Ability to pay cash dividends in the future
 - d) **All of the given options**
75. The year in which long term assets are expected to be mature, will be transfer to _____ section of the balance sheet.
- a) **Current asset**
 - b) Deferred asset
 - c) Current liabilities
 - d) Fixed assets
76. Inventory accounts should be classified in which section of a balance sheet?
- a) **Current assets**
 - b) Investments
 - c) Property, plant, and equipment
 - d) Intangible assets

77. A company has interest expense of Rs. 35,000, its accrued liabilities are increased by Rs. 7000. Calculate the cash payments for the interest.
- a) **Rs. 28,000**
 - b) Rs. 42,000
 - c) Rs. 30,000
 - d) Rs. 18,000
78. The appropriate journal entry to record equipment depreciation expense would consist of a debit to Depreciation Expense and a credit to which of the following accounts?
- a) Revaluation asset
 - b) **Accumulated Depreciation: Equipment**
 - c) Retained Earnings
 - d) Cash
79. Which of the following would be considered a cash-flow item from an "operating" activity?
- a) **Cash outflow to the government for taxes**
 - b) Cash outflow to shareholders as dividends
 - c) Cash inflow to the firm from selling new common equity shares
 - d) Cash outflow to purchase bonds issued by another company
80. End product of the accounting cycle is known as the_____
- a) Tax return
 - b) **Financial statements**
 - c) Auditor's annual report
 - d) Annual general meeting
81. Which of the following company would like to use the accelerated depreciation method?
- a) **A company with large tax burdens**
 - b) A company with low tax burdens
 - c) A company that want to report high net income
 - d) A company that want to report huge assets
82. Which of the following is an inventory pricing procedure in which the oldest costs incurred rarely have an effect on the ending inventory valuation?
- a) **FIFO**
 - b) LIFO
 - c) Specific identification
 - d) Weighted-average
83. Which of the following is the most common adjusting entry?
- a) Un-earned revenue
 - b) Pre-paid expense
 - c) **Depreciation expense**
 - d) Accrued revenue

84. The balances of opening and closing accounts receivable are Rs. 40,000 and 15,000 respectively what would be the value of cash received from customer if the net sales are Rs. 45,000.
- a) Rs. 85,000
 - b) Rs. 60,000
 - c) **Rs. 70,000**
 - d) Rs. 100,000
85. Which of the following is the adjustment that is added during the reconciliation of net income to operating cash flows in indirect method?
- a) An increase in Accounts Receivable
 - b) An increase in Prepaid Expenses
 - c) Gain on sale of capital assets
 - d) **Amortization Expense**
86. In financial statement analysis, an increasing capital stock account tends to be a sign of which of the following?
- a) Weak financial health
 - b) Insolvency
 - c) **Economic health**
 - d) High liquidity
87. Closing entries result in net income being calculated in the income summary account and then transferred to which of the following account?
- a) Revenue account
 - b) Common Stock account
 - c) Dividends account
 - d) **Retained Earnings account**
88. In the period of inflation, which of the following method will result in the greatest value of ending inventory?
- a) **First in first out method**
 - b) Last in first out method
 - c) Weighted average cost method
 - d) Just in time method
89. Opinion of the auditor is termed as unqualified when the auditor concludes the following points about the financial statements except:
- a) Presented fairly and unbiased
 - b) Free from misleading information
 - c) Consistency in the accounting policies
 - d) **Balance sheet showing sound position**
90. Which of the following is the third step of accounting cycle?
- a) Preparing financial statements
 - b) Preparing trial balance

- c) **Posting**
 - d) Making adjusting entries
91. A complete set of financial statements for Hartman Company, at December 31, 2007, would include each of the following, EXCEPT:
- a) Balance sheet as at December 31, 2007
 - b) Income statement for the year ended December 31, 2007
 - c) **Statement of projected cash flows for 2008**
 - d) Notes containing additional information that is useful in interpreting the financial statements
92. When cash flow statement is prepared by using indirect method, which part of it is different from the direct method?
- a) Cash flow from investing activities
 - b) Cash flow from financing activities
 - c) **Cash flow from operating activities**
 - d) All parts are same in both methods
93. How much duration does an accounting period usually have?
- a) Three months
 - b) Two years
 - c) **One year**
 - d) Five years
94. Which of the following statement shows the effects of cash inflows and outflows?
- a) Balance Sheet
 - b) Statement of Owner's Equity
 - c) Income Statement
 - d) **Statement of Cash Flows**
95. To determine the balance of a particular account, one should refer to which of the following?
- a) **Ledger**
 - b) Source document
 - c) Chart of accounts
 - d) Journal
96. A business has purchased a building on credit, how it would be recorded in the journal?
- a) Building - Credit; Accounts payable – Debit
 - b) Building - Debit; Notes payable –Credit
 - c) Building - Debit; Owner's equity- Credit
 - d) **Building - Debit; Accounts payable - Credit**

97. An entry that affects more than one accounts is known as _____.
- a) **Journal entry**
 - b) **Compound entry**
 - c) Adjusting entry
 - d) Reversing entry
98. Which of the following is **NOT** true about the net income?
- a) **It is a calculated figure and represents actual cash**
 - b) It can be distributed among holders of common stock as a dividend
 - c) It can be held by the firm as retained earnings
 - d) It is obtained by subtracting expenses from the revenues
99. What would be the adjusting entry to record depreciation if the estimated amount of depreciation on equipment for a period is Rs. 2,000?
- a) Depreciation expense - Debit; Equipment – Credit
 - b) **Depreciation expense - Debit; Accumulated depreciation – Credit**
 - c) Equipment - Debit; Depreciation expense – Credit
 - d) Accumulated depreciation - Debit; Depreciation expense - Credit
100. The trial balance shows Supplies of Rs.1,350 and Supplies Expense of Rs.0. If Rs.600 on hand at the end of the period, the adjusting entry would be:
- a) Supplies, Rs. 600 - Debit; Supplies Expense, Rs. 600 – Credit
 - b) Supplies, Rs. 750 - Debit; Supplies Expense, Rs. 750 – Credit
 - c) **Supplies Expense, Rs. 750 - Debit; Supplies, Rs. 750 – Credit**
 - d) Supplies Expense, Rs. 600 Debit; Supplies, Rs. 600 – Credit
101. Which of the following accounts would **NOT** be included in a post-closing trial balance?
- a) Cash
 - b) Accumulated depreciation
 - c) Owner's equity
 - d) **Fees earned**
102. After the closing entries are posted to the ledger, each expense account will have?
- a) A debit balance
 - b) A negative balance
 - c) A credit balance
 - d) **A zero balance**

103. Current assets are those assets which management intends to convert into cash or consume within:
- a) The operating cycle
 - b) One year
 - c) **The longer of operating cycle or one year**
 - d) The shorter of operating cycle or one year
104. Which of the following is **NOT** the most common example of cash equivalents?
- a) Savings deposits
 - b) Certificates of Deposit (CDs)
 - c) **Stocks of other companies**
 - d) Money market mutual funds
105. In preparing the statement of cash flows, how should non-cash investing/financing activities be reported?
- a) In the financing activities section of the statement of cash flows
 - b) **In a separate schedule accompanying the statement of cash flows**
 - c) In the investing activities section of the statement of cash flows
 - d) Should not to be reported
106. 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?
- a) Depreciation
 - b) Deferred tax
 - c) Amortization
 - d) **Investments**
107. Which of the following activities convert the income statement items from the accrual basis of accounting to cash?
- a) **Operating activities**
 - b) Investing activities
 - c) Financing activities
 - d) Non cash activities
108. Which one of the following items are specifically included in the body of a statement of cash flows?
- a) **Operating and non- operating cash flow information**
 - b) Conversion of debt to equity
 - c) Acquiring an asset through a capital leases
 - d) Purchasing a building by giving a mortgage to the seller

109. 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?
- a) Rs. 505,000
 - b) Rs. 516,000
 - c) Rs. 490,000
 - d) **Rs. 495,000**
110. The cash flow from investing activities shows the cash effects of which of the following?
- a) Income statement items
 - b) **Long term assets items**
 - c) Long term liability & stockholder's equity
 - d) Long term liability and long term assets
111. Which of the following must be included in a company's summary of significant accounting policies in the notes to the financial statements?
- a) Description of current year equity transactions
 - b) Summary of long-term debt outstanding
 - c) Schedule of fixed assets
 - d) **Revenue recognition policies**
112. Gross profit is:
- a) **Excess of sales over cost of goods sold**
 - b) Sales less Purchases
 - c) Cost of goods sold + Opening stock
 - d) Net profit less expenses of the period
113. An inventory error affects _____ accounting periods.
- a) Only current
 - b) **Two**
 - c) Three
 - d) Four
114. From the given data, calculate Cost of Goods Sold using the FIFO costing method:
- i. Beginning inventory is 10 units @ Rs. 10 each.
 - ii. On January 20, purchased 10 units @ Rs. 20 each
 - iii. On January 30, purchased 5 units @ Rs. 30 each

- iv. 15 of the 25 units are sold.
- a) **Rs. 200**
 - b) Rs. 150
 - c) Rs. 350
 - d) Rs. 450
115. Under which cost flow assumption, the ending inventory is composed of the most recently purchased merchandise?
- a) **FIFO**
 - b) LIFO
 - c) Average cost
 - d) Specific identification
116. 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?
- a) Rs. 30,000
 - b) **Rs. 90, 000**
 - c) Rs. 340,000
 - d) Rs. 400,000
117. Which cost flow assumption most closely matches the actual physical flow of inventory in most retailing businesses?
- a) FIFO
 - b) LIFO
 - c) Average cost
 - d) **Specific identification**
118. The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were:
- a) Less than current market value
 - b) Greater than cost
 - c) Greater than book value
 - d) **Less than book value**
119. The purpose of recording depreciation on productive assets is to:
- a) Reflect the decline in the market value of the assets each period
 - b) Reduce income when the company has an exceptionally profitable year
 - c) Be in conformity with the revenue recognition principle
 - d) **Allocate the original cost of a productive asset to expense over its useful life**

120. ABC Company has Rs. 150,000 cash, Rs. 80,000 as accounts receivables, Rs. 20,000 as allowance for doubtful accounts, Rs. 10,000 as work in progress inventory, Rs. 55,000 as prepaid expenses, Rs. 50,000 land purchased in the current year. Calculate the value of current assets.
- a) **Rs. 275,000**
 - b) Rs. 315,000
 - c) Rs. 365,000
 - d) Rs. 220,000
121. Which of the following would be considered a cash-flow item from a "financing" activity?
- a) A cash outflow to the government for taxes
 - b) **A cash outflow to repurchase the firm's own common stock**
 - c) A cash outflow to lenders as interest
 - d) A cash outflow to purchase bonds issued by another company
122. Which of the following is **NOT** an example of cash equivalents?
- a) Certificates of Deposit
 - b) Money market accounts
 - c) Money market mutual funds
 - d) **Euro Bond**
123. Which of the following would **NOT** be considered a cash flow from "operating" activities?
- a) Payments for the sale of loans
 - b) Interest received on loans
 - c) Tax payments
 - d) **Payment of debt principle**
124. Depreciation is added back to profit when arriving at the cash flow from operating activities because:
- a) **Depreciation is only an estimated amount**
 - b) Depreciation does not affect profit
 - c) Depreciation does not result in a flow of cash
 - d) Depreciation only affects the balance sheet, not the profit and loss account
125. If net profit before taxation and interest was Rs. 95,000, depreciation for the year was Rs. 17,000, stock has decreased during the year by Rs. 7,000, debtors have increased by Rs. 11,000 and creditors have decreased by Rs. 4,000, what is the overall cash flow from operating activities?
- a) **Rs. 104,000**
 - b) Rs. 112,000
 - c) Rs. 98,000
 - d) Rs. 134,000
126. In the long run, a business must generate positive net cash flow from which of the following activities, if it is to survive?

- a) Investing activities
 - b) Financing activities
 - c) **Operating activities**
 - d) Non cash activities
127. The income statement of the UBL shows the interest revenue of Rs. 6,000, and the amount of accrued interest receivable has increased from Rs. 3000 to Rs. 4000 during the year. Calculate the amount of interest received.
- a) Rs. 7000
 - b) Rs. 8000
 - c) **Rs. 5000**
 - d) Rs. 1000
128. The statement of cash flow does **NOT** assist investors, creditors and others in assessing such factors as:
- a) The company's ability to generate positive cash flows in future periods
 - b) The company's ability to meet its obligations and to pay dividends
 - c) **The company's ability to forecast future losses**
 - d) The company's needs for external financing
129. Which of the following should **NOT** be called "Sales"?
- a) Goods sold for cash
 - b) **Office fixtures sold**
 - c) Goods sold on credit
 - d) Sale of item previously included in 'Purchases'
130. An incorrect inventory balance would **NOT** cause an error in the calculation of
- a) Cost of goods sold
 - b) Net income
 - c) Gross profit
 - d) **Dividends**
131. Which of the following is **NOT** true about the specific identification method?
- a) It requires a very detailed physical count
 - b) This method allows management to easily manipulate ending inventory cost
 - c) This method is very hard to use on interchangeable goods
 - d) **This results in an overstated inventory account during the period of inflation**
132. Under the periodic inventory system, which of the following is a correct closing entry?
- a) Debit - Income Summary; Credit - Sales
 - b) **Credit - Income Summary; Debit - Purchase Returns & Allowances**
 - c) Debit - Income Summary; Credit Merchandise Inventory
 - d) Debit Purchases; Credit - Income Summary

133. In a periodic inventory system, when merchandise is purchased its cost is debited to
to
account.
- a) Inventory
 - b) Inventory expense
 - c) **Purchases**
 - d) Cost of goods sold
134. Which of the following is **NOT** a financial asset?
- a) Marketable securities
 - b) Receivables
 - c) **Inventory**
 - d) Short-term investments
135. Notes to financial statements are beneficial in meeting the disclosure requirements of financial reporting. The note should **NOT** be used to:
- a) Describe significant accounting policies
 - b) Describe depreciation methods employed by the company
 - c) Describe principles and methods peculiar to the industry
 - d) **An improper presentation in the financial statements**
136. A company purchased the land in exchange for the capital stock; it would affect which of the following?
- a) Cash flow from operating activities
 - b) Cash flow from investing activities
 - c) Cash flow from financing activities
 - d) **It would not affect any section**
137. Which of the following would **NOT** represent the cash outflows for the business?
- a) Purchase of building for cash
 - b) **The sale of land for cash**
 - c) Retirement of long term debt
 - d) The payment of cash for dividends
138. 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.
- a) Rs. 215,000
 - b) **Rs. 205,000**
 - c) Rs. 195,000
 - d) Rs. 200,000
139. Which of the following is **NOT** an asset?
- a) Buildings
 - b) **Loan from Harris**
 - c) Cash balance

- d) Debtors
140. Which of the following statements is **INCORRECT**?
- a) Liabilities + Capital = Assets
 - b) Liabilities + Assets = Capital**
 - c) Assets - Capital = Liabilities
 - d) Assets - Liabilities = Capital
141. Which of the following account has a normal credit balance?
- a) **Sales**
 - b) Selling expenses
 - c) Land
 - d) Purchases
142. Posting' the transactions in bookkeeping means:
- a) Entering items in a cash book
 - b) Making the second entry of a double entry transaction**
 - c) Making the first entry of a double entry transaction
 - d) Something other than the above
143. Which of the following best describes a trial balance?
- a) It is a list of balances on the books**
 - b) Shows the financial position of a business
 - c) Shows all the entries in the books
 - d) It is a special account
144. The process of recording the economic effects of business transactions in a book of original entry is known as which of the following?
- a) Double entry system
 - b) Journalizing**
 - c) Debit
 - d) Posting
145. If we take goods for own use we should:
- a) Debit -Sales Account; Credit -Stock Account
 - b) Debit -Drawings Account; Credit -Purchases Account**
 - c) Debit -Drawings Account; Credit -Stock Account
 - d) Debit -Purchases Account; Credit -Drawings Account
146. According to the rules of debit and credit for balance sheet accounts:
- a) Increase in assets, liability, and owner's equity accounts are recorded by debits
 - b) Decrease in assets and liability accounts are recorded by credits
 - c) Increase in assets and owner's equity accounts are recorded by debits
 - d) Decrease in liability and owner's equity accounts are recorded by debits**
147. An entry that affects more than one accounts is known as _____ .

- a) Journal entry
 - b) **Compound entry**
 - c) Adjusting entry
 - d) Reversing entry
148. Which of these errors would be disclosed by the trial balance?
- a) Credit sales of Rs. 300 entered in both double entry accounts as Rs. 30
 - b) **Cheque Rs. 95 from C Smith entered in Smith's account as Rs. 59**
 - c) Selling expenses had been debited to Sales Account
 - d) A purchase of Rs. 250 was omitted entirely from the books
149. Which of the following is **NOT** true about the net income?
- a) It can be distributed among holders of common stock as a dividend
 - b) It can be held by the firm as retained earnings
 - c) **It is a calculated figure and represents actual cash**
 - d) It is obtained by subtracting expenses from the revenues
150. Which of the following equation is **CORRECT**?
- a) Opening stock + purchases + closing stock = cost of goods sold
 - b) Cost of goods sold – closing stock – purchases = opening stock
 - c) **Cost of goods sold + closing stock – opening stock = purchases**
 - d) Opening stock + cost of goods sold – purchases = closing stock
151. Which of the following is the cause of depreciation?
- a) Decrease in the market value of the asset
 - b) Decrease in the book value of the asset
 - c) **Physical wear and tear of fixed assets**
 - d) Increase in the market value of assets
152. If sales returns are Rs. 25,000, sales are Rs. 125,000. Net purchases are Rs. 84,000 and gross profit is Rs. 21,000, then the cost of goods sold will be:
- a) Rs. 84,000
 - b) Rs. 64,000
 - c) Rs. 92,000
 - d) **Rs. 79,000**
153. A company has four employees that earn Rs. 180.00 per day. The employees are paid weekly, on Friday. December 31 would be on Wednesday. What is the adjustment to be made?
- a) Rs. 0
 - b) **Rs. 1620**
 - c) Rs. 1080
 - d) Rs. 540
154. Which of the following types of adjustments belongs to the accrued item class?
- a) Assets/Expense

- b) Liability/Revenue
 - c) Asset/Liability
 - d) **Liability/Expense**
155. Which of the following are parts of operating expenses?
- a) Interest expense and general expenses
 - b) Selling expenses and cost of goods sold
 - c) Interest expense and selling expenses
 - d) **General expense and selling expenses**
156. The amount charged to customers for goods or services sold is called a (n):
- a) Expense
 - b) Net income
 - c) **Revenue**
 - d) Asset
157. Which of the following is the largest single expense of most merchandising firms?
- a) **Cost of goods sold**
 - b) Rent Expense
 - c) Amortization Expense
 - d) Salaries Expense
158. One purpose of closing entries is to give zero balances to which of the following accounts?
- a) Asset and liability accounts
 - b) Liability and capital accounts
 - c) **Revenue and expense accounts**
 - d) Expense and capital accounts
159. Which of the following items can be found on an income statement?
- a) Accounts receivable
 - b) Long-term debt
 - c) **Sales**
 - d) Inventory
160. Which of the following would **NOT** be the characteristics of current assets?
- a) Likely to change before the next accounting period is over
 - b) **Not bought for resale**
 - c) Use as part of the firm's trading operations
 - d) Liquidity
161. If you only knew a company's total assets and total debt, which item could you easily calculate?
- a) Sales
 - b) Depreciation

- c) **Total equity**
 - d) Inventory
162. How do we calculate a company's operating cash flow?
- a) **EBIT - taxes + depreciation**
 - b) EBIT - taxes – depreciation
 - c) EBIT + taxes + depreciation
 - d) EBIT – Sales
163. Holding all other things constant, which of the following represents a cash outflow?
- a) The company sells a machine.
 - b) **The company acquires inventory.**
 - c) The company receives a bank loan.
 - d) The company increases accounts payable.
164. Which of the following is a liquidity ratio?
- a) **Quick ratio**
 - b) P/E- ratio
 - c) Inventory turnover
 - d) Equity multiplier
165. If a company's net profit margin is 5% and its total asset turnover is 3.5, what is its ROA?
- a) **17.50%**
 - b) 1.43%
 - c) 70.00%
 - d) 12.53%
166. A company has an average collection period of 52 days and accounts receivables of Rs. 250,000. What are the company's annual sales?
- a) 2,234,756
 - b) **1,754,808**
 - c) 1,543,823
 - d) 250,000
167. Last National, Inc. has a net profit margin of 12%, an equity multiplier of 2, sales of Rs. 575,000 and a ROE of 14.5%. What is Last National's total asset turnover?
- a) 1.6042
 - b) **0.6042**
 - c) 2
 - d) None
168. Financial professionals prefer to focus on an accounting approach that focuses on
- a) Governmental accounting methods.
 - b) **Current and prospective cash flows.**

- c) Economically based accruals.
- d) International accrual accounting standards.

169. Generally accepted accounting principles are developed by

- a) The Securities and Exchange Commission.
- b) **The Financial Accounting Standards Board.**
- c) Congress.
- d) The New York Stock Exchange.

170. Which of the following statements is not required by the SEC for publicly traded firms?

- a) **The statement of cost of goods sold**
- b) The statement of retained earnings
- c) The statement of cash flows
- d) The balance sheet

171. The balance sheet entry that represents the cumulative total of the earnings that a firm has reinvested since its inception is

- a) Common stock.
- b) Paid-in-capital.
- c) Par value.
- d) **Retained earnings.**

172. Company X had sales of Rs.120 with a cost of goods sold equal to 25% of sales. In addition, X had total other operating expenses of Rs. 50 with an interest expense of Rs. 20. If X pays a flat 40% of its pre-tax income in income taxes, what is X's net income?

- a) 20
- b) 27
- c) **12**
- d) None

173. If you are looking to review a firm's sources and uses of cash flows over the year, the easiest place to find that information is

- a) The Income Statement
- b) The Statement of Retained Earnings
- c) **The Statement of Cash Flows**
- d) The Balance Sheet

174. In order to identify the amount of funds that a firm borrowed during the preceding year, what section is the best source within the Statement of Cash Flows?

- a) Operating flows
- b) Investment flows
- c) **Financing flows**
- d) Total net cash flows

175. If you start with earnings before interest and taxes and then subtract a firm's tax

expense while adding back the amount of depreciation expense for the firm during the year, the resulting figure is called

- a) Free cash flow
- b) **Operating cash flow**
- c) Net cash flow
- d) Gross cash flow

176. When calculating a firm's free cash flow from earnings before interest and taxes we must add back depreciation, amortization and depletion expense and allowances because

- a) **They are non-cash expenditures.**
- b) The accounting method for reporting such expenses may be different from that reported to the taxing authority.
- c) They approximate the value of fixed asset purchases during the year.
- d) They are unrelated to the amount of taxes paid during the year.

177. When calculating the dollar amount of fixed assets purchased during the year what information is required? Assume that no fixed assets were disposed of during the year.

- a) The current and prior year's gross fixed assets
- b) The current and prior year's net fixed assets
- c) The current and prior year's net fixed assets plus the firm's depreciation expense for the year.
- d) **Either a or c will suffice**

178. In general, the more debt a firm uses in relation to its total assets

- a) The less risk there is to the equity holders of the firm.
- b) The less financial leverage it uses.
- c) **The greater the financial leverage it uses.**
- d) The greater extent to which it uses equity

179. What is the financial ratio that measures the price per share of stock divided by earnings per share?

- a) Return on assets
- b) Return on equity
- c) Debt-equity ratio
- d) **Price-earnings ratio**

180. Which financial ratio measures the effectiveness of management in generating returns to common stockholders with its available assets?

- a) Gross profit margin
- b) Return on equity
- c) **Return on assets**
- d) Current ratio

181. When is the return on assets equal to the return on equity?

- a) When the current ratio of the firm equals 1.
 - b) When the firm issues equal amounts of long term debt and common stock.
 - c) When the firm issues no dividends for a given time period.
 - d) When the firm only issues equity to finance its borrowing.**
182. A firm reports a current ratio of 2 and a quick ratio of 1.2. The firm has total current assets of Rs. 4,000. If the firm reports cost of goods sold at Rs. 25,000 for the given year, what is the average age of their inventory?
- a) 12.35 days
 - b) 15.63 days
 - c) 18.24 days
 - d) 23.36 days**
183. The major device for measuring the profitability of a firm over a defined period of time is the
- a) **Income statement.**
 - b) Balance sheet.
 - c) Statement of cash flow.
 - d) None of the above
184. The__ does not represent continuing operations in any way, but is simply a snapshot of the total worth of a firm at a given point in time.
- a) Income statement
 - b) Balance sheet**
 - c) Sources and uses of funds statement
 - d) None of the above
185. The statement of cash inflows and outflows shows all of the following except.
- a) How the firm's balance sheet changed from one period to another.
 - b) How funds from operations were used to finance the company's assets.
 - c) How the firm has matched short-term and long-term sources of funds with short-term and long-term uses of funds.
 - d) The firms cost of new borrowing.**
186. Cash inflows arise from_____assets,_liabilities, and _____ stockholders' equity.
- a) Increasing; increasing; decreasing
 - b) Increasing; decreasing; decreasing
 - c) Decreasing; increasing; increasing**
 - d) Decreasing; increasing; decreasing
187. Which of the following is NOT a key ratio in the prediction of bankruptcy as developed by Edward Altman?
- a) **Debt to equity**
 - b) Current ratio

- c) Retained earnings as a percent of total assets
- d) Total assets

188. _____ratios measure the ability of a firm to earn an adequate return on sales, total assets and invested capital.

- a) Asset utilization
- b) Liquidity
- c) **Profitability**
- d) Debt utilization

189. The method of calculating return on assets which highlights the importance of sales, profit margin and asset turnover is known as

- a) The sales method
- b) **DuPont analysis**
- c) The Altman model
- d) The Gordon model

190. Asset utilization ratios measure all of the following except

- a) Productivity of fixed assets in terms of sales
- b) The relationship of the income statement to cash of the asset groups on the balance sheet.
- c) How many times per year the inventory is sold and accounts receivable collected.
- d) **The firm's ability to pay off short-term obligations as they come due.**

191. The primary purpose of the liquidity ratios is to determine

- a) How much working capital is tied up in inventory.
- b) The relative level of short-term debt
- c) **How well a firm is able to pay off short-term obligations.**
- d) None

192. Which of the following statements about liquidity ratios is true?

- a) **The higher the current ratio, the more likely a firm is able to pay its short-term obligations.**
- b) The lower the quick ratios relative to the current ratio, the safer a firm is in terms of liquidity.
- c) The ratio of net working capital to total assets always lies between 0 and 1.
- d) Relatively high current ratios are usually a sign of efficient working capital management.

193. The_____ratios help determine the degree of financial risk and earnings volatility present in a firm.

- a) Profitability

- b) Asset utilization
- c) Liquidity
- d) **None of the above.**

194. _____ Ratios measure the impact of external market forces on the internal performance of a firm.

- a) **Price**
- b) Profitability
- c) Liquidity
- d) Asset utilization

195. High payout ratio indicates

- a) A firm is investing heavily in plant and equipment.
- b) A firm has high current obligations
- c) **The firm is probably in the mature phase of its life cycle and does not have many growth opportunities available.**
- d) The firm is probably in Stage II of its life Cycle.

196. Ratio analysis which compares a company to an industry is complicated because

- a) Reliable industry data is not readily accessible.
- b) The accounting conventions between companies may be dissimilar.
- c) Large companies are diversified across several industries.
- d) **All of the above**

197. ___ analysis is the process of studying a series of ratios for a company and/or industry over time.

- a) DuPont
- b) **Trend**
- c) Common size
- d) All of the above.

198. In an inflationary economy, many firms use the method of inventory valuation to reduce distortion of profits.

- a) Current cost
- b) **LIFO**
- c) FIFO
- d) LILO

199. Replacement cost accounting _____ income, but _____ assets and _____ the debt-to-assets ratio.

- a) **Reduces; increases; lowers**
- b) Lowers; increases; increases
- c) Increases; decreases; lowers
- d) None of the above

200. Corporate pension funds pose a threat to future earnings of the company because
- a) The company is liable for all payments.
 - b) Unfunded pensions will be paid from future earnings
 - c) The firm may be unable to reinvest in new assets.
 - d) **All of the above**
201. The statement of cash flows tells us
- a) Accounting profit or loss
 - b) How cash was created
 - c) Actual profit or loss
 - d) None of the above
202. An analyst can judge a company's level of debt by comparing these ratios:
- a) Return-on-equity to total debt-to-assets
 - b) Return-on-equity to total asset turnover
 - c) Return-on-equity to debt turnover
 - d) **Return-on-equity to return-on-assets**
203. A stock is a good buy when the value of these ratios except one is low compared to a market index or company history. Which one doesn't belong?
- a) Price to book value
 - b) Price to earnings
 - c) Dividend yield
 - d) **All of the above**
204. Which of the following is not an asset utilization ratio:
- a) Receivable turnover
 - b) Fixed-asset turnover
 - c) **Quick ratio**
 - d) All of the above are asset utilization ratios
205. The major device that indicates what the firm owns and how these assets are financed in the form of liabilities or ownership interest:
- a) **The balance sheet.**
 - b) The statement of cash flows.
 - c) The income statement.
 - d) The general ledger.
206. The primary sections of a statement of cash flows are:
- a) **Cash flows from investing, operating, and financing activities.**
 - b) Cash flows from investing and operating activities plus investments.
 - c) Cash flows from investing, financing, and accounting activities.
 - d) Cash flows from investing, operating, financing, and accounting activities.

207. Financial ratios are used to weigh and evaluate:
- The operating performance and capital structure of the firm.**
 - Which stocks are the "gold mine" stocks when investing in the market.
 - Which stocks are about to file for bankruptcy.
 - The net present value of the company
208. The type of ratio that allows the analyst to measure the ability of the firm to earn an adequate return on sales, total assets, and invested capital is:
- Liquidity ratios.
 - Profitability ratios.**
 - Asset-utilization ratios.
 - Debt-utilization ratios.
209. Which of the following is a good example of changes in accounting principles.
- A change in earnings per share due to an increase in the number of shares of common stock
 - A change in income due to a change for post retirement benefits**
 - A change in earnings before taxes because of a change in internal rates on debt
 - None of the above
210. When a company repurchases shares of their own common stock
- The earnings per share will rise
 - The dividends paid out in total will decline
 - The earnings per share growth rate will rise
 - All of the above**
211. You would find the payment of dividends in the statement of cash flow under
- Cash flows from operating activities
 - Cash flows from investing activities
 - Cash flows from financing activities**
 - Cash flows from purchasing activities
212. You would expect to find depreciation and amortized expenses in the statement of cash flows under
- Cash flows from operating activities**
 - Cash flows from investing activities
 - Cash flows from financing activities
 - Cash flows from purchasing activities
213. The Hamid Printing Co. had sales of Rs. 10 million, Operating Income of Rs. 3 million; After-tax income of Rs. 1 million; assets of Rs. 8 million; Stockholders' equity of Rs. 5 million; and a total debt of Rs. 4 million. What is

Hamid's return on assets?

- a) 37.5%
- b) **12.5%**
- c) 30%
- d) 25%

214. The Hamid Printing Co. had sales of Rs. 10 million, Operating Income of Rs. 3 million; After-tax income of Rs. 1 million; assets of Rs. 8 million; Stockholders' equity of Rs. 5 million; and a total debt of Rs. 3 million. What is Hamid's return on equity?

- a) 37.5%
- b) 10%
- c) **20%**
- d) 60%

215. The Hamid Printing Co. had sales of Rs. 10 million, Operating Income of Rs.3 million; Aftertax income of Rs. 1 million; assets of Rs. 8 million; Stockholders' equity of Rs.5 million; and a total debt of Rs. 3 million. What is Hamid's profit margin?

- a) **10%**
- b) 20%
- c) 30%
- d) 33%

216. The Hamid Printing Co. had sales of Rs. 10 million, Operating Income of Rs. 3 million; Aftertax income of Rs. 1 million; assets of Rs. 8 million; Stockholders' equity of Rs. 5 million; and a total debt of Rs. 3 million. What is Hamid's asset turnover?

- a) .50
- b) **1.25**
- c) 2.50
- d) 3.33

217. The Hamid Printing Co. had sales of Rs.10 million, Operating Income of Rs. 3 million; After-tax income of Rs.1 million; assets of Rs. 8 million; Stockholders' equity of Rs. 5 million; and a total debt of Rs. 3 million. If we measure Hamid's financial leverage we would most likely use which of the following ratios

- a) Debt to equity (60%) and Debt to Sales (30%)
- b) Debt to equity (60%) and equity to assets (62.5%)
- c) **Debt to equity (60%) and debt to assets (37.5%)**
- d) Equity to assets (62.5%) and aftertax income to debt (33.3%)

218. The money markets deal with _____.

- a) Securities with a life of more than one year

- b) **Short-term securities**
 - c) Securities such as common stock
 - d) None of the above
219. The ability of a firm to convert an asset to cash is called _____.
- a) **Liquidity**
 - b) Solvency
 - c) Return
 - d) Marketability
220. Early in the history of finance, an important issue was:
- a) **Liquidity**
 - b) Technology
 - c) Capital structure
 - d) Financing options
221. The accounting statements that a firm is required to file include all but one of these.
- a) Balance Sheet
 - b) **Statement of Accounts Receivable**
 - c) Income Statement
 - d) Statement of Cash Flows
222. The _____ shows the firm's operating results over a period of time.
- a) **Income Statement**
 - b) Statement of Cash Flows
 - c) Balance Sheet
 - d) None of the above
223. All of the following except one are tax-deductible expenses.
- a) Interest expense
 - b) Depreciation
 - c) **Common stock dividends**
 - d) Income taxes
224. All of the following are non-operating expenses except _____.
- a) Interest expense
 - b) **Cost of goods sold**
 - c) Preferred stock dividends
 - d) Taxes
225. Bondholders receive _____ from the business firm.
- a) Preferred dividend payments
 - b) Common stock payments

- c) **Interest payments**
- d) Royalties

226. The ratio of net income to common shares outstanding is called

- _____.
- a) Price/earnings ratio
 - b) **Earnings per share**
 - c) Dividends per share
 - d) None of the above

227. Usually, firms with high price/earnings ratios are _____ firms.

- a) **Growth**
- b) Declining
- c) Mature
- d) None of the above

228. One of the limitations of the _____ is that it is based on historical costs.

- a) Income statement
- b) Statement of cash flows
- c) **Balance sheet**
- d) None of the above

229. A source of funds is a:

- a) Decrease in a current asset
- b) Decrease in a current liability
- c) Increase in a current liability
- d) **A and C above**

230. Short-term financing for a business firm includes:

- a) Bonds
- b) **Accounts payable**
- c) Stockholder's equity
- d) Mortgages

231. Trend analysis allows a firm to compare its performance to:

- a) Other firms in the industry
- b) Other time periods within the firm
- c) Other industries
- d) **All of the above**

232. Ratio analysis allows a firm to compare its performance to:

- a) Other firms in the industry
- b) Other time periods within the firm
- c) Other industries
- d) **All of the above**

233. Usually, a firm's suppliers are most interested in its _____ ratios.
- a) Profitability
 - b) Debt
 - c) Asset utilization
 - d) **Liquidity**
234. _____ would be most interested in a firm's debt utilization ratios.
- a) Bondholders
 - b) Stockholders
 - c) Short-term creditors
 - d) **Both A and B**
235. The _____ ratio indicates the return firm shareholders are earning.
- a) Return on assets
 - b) Return on investment
 - c) **Return on equity**
 - d) Net profit margin
236. Which of the following is an example of a profitability ratio?
- a) Quick ratio
 - b) Average collection period
 - c) **Return on equity**
 - d) Times interest earned
237. Total asset turnover will indicate if there is a problem with the _____ ratio.
- a) Debt to assets
 - b) Times interest earned
 - c) **Fixed asset turnover**
 - d) Current
238. All of the following are asset utilization ratios except:
- a) Average collection period
 - b) Inventory turnover
 - c) Receivables turnover
 - d) **Return on assets**
239. If a firm's debt ratio is 55%, this means _____ of the firm's assets are financed by equity financing.
- a) 55%
 - b) 50%
 - c) **45%**
 - d) Not enough information to answer question

240. All of the following can present problems for ratio analysis except:
- a) Inflation
 - b) Inventory accounting methods
 - c) Disinflation
 - d) **All of the above**
241. ABC Company has Rs. 120,000 cash, Rs. 50,000 as accounts receivables, Rs. 10,000 as allowance for doubtful accounts, Rs. 30,000 as work in progress inventory, Rs. 45,000 as finished goods, Rs. 40,000 land purchased in the current year. Calculate the value of current assets.
- a)Rs. 275,000
 - b) Rs. 285000
 - c)**Rs. 235,000**
 - d) Rs. 210,000
242. 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.
- a)0.76
 - b) 6.45
 - c) 4.75
 - d) **4.90**
243. If the prepaid rent account before adjustment at the end of the month has a debit balance of Rs. 1,600, representing a payment made on the first day of the month, and if the monthly rent was Rs.800, the amount of prepaid rent that would appear on the balance sheet at the end of the month, after adjustment, is:
- a)Rs. 1,600
 - b) Rs. 400
 - c)**Rs. 800**
 - d) Rs. 2,400
244. A company has interest expense of Rs. 35,000, its accrued liabilities increased by Rs. 7,000. What will be the cash payments for the interest?
- a)Rs. 28,000
 - b) **Rs. 42,000**
 - c) Rs. 30,000
 - d) Rs. 18,000
245. A company has the following currents assets: Cash Rs. 30,000; marketable securities Rs. 20,000; accounts receivable Rs. 20,000, inventory Rs. 15,000; prepaid expenses Rs. 10,000; the total current liabilities were Rs. 55,400. Calculate the quick ratio of the company.
- a)1.71

- b) **1.44**
- c) 1.26
- d) 1.53

246. The situation, where the amount of current assets is exactly equal to current liabilities, is found when current ratio is:
- a) 2 : 1
 - b) 2.3 : 1
 - c) 3 : 2
 - d) **1 : 1**
247. 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.
- a) **Rs. 26,000,000**
 - b) Rs. 2000,000
 - c) Rs. 45,160,000
 - d) Rs. 43,160,000
248. Suppose that a company has cash sales of Rs. 50 million, total expenses of Rs. 35 million, and net income of Rs.15 million. If accounts receivable decreased by Rs. 12 million, how much cash did the company receive from the customers?
- a)Rs. 62 million
 - b) Rs. 50 million
 - c)**Rs. 38 million**
 - d) Rs. 15 million
249. 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)
- a)83 days
 - b) 125 days
 - c)**104 days**
 - d) 100 days
250. Which of the following is NOT among the five main kinds of current assets?
- a)Cash and equivalent
 - b) **Deferred income**
 - c) Accounts receivable
 - d) Prepaid expenses
251. Investing activities include all of the following EXCEPT:
- a)Payment of debt
 - b) Collection of loans

- c) Making of loans
 - d) **Sale of available for sale and held to maturity securities**
252. When merchandise is purchased in a periodic inventory system, its cost is debited to _____ account.
- a) Inventory
 - b) Inventory expense
 - c) Purchases
 - d) **Cost of goods sold**
253. The indirect method shows the reconciliation from net income to operating cash flows. Select the adjustment that is subtracted during the reconciliation.
- a) **Non-cash revenues (revenues earned but payment not yet received) reported on the income statement**
 - b) A decrease in Accounts Receivable or another non-cash current asset
 - c) Revenues earned and received in cash.
 - d) Non-cash expenses (expenses incurred but not paid) reported on the income statement-one example is amortization expense.
254. Which of the following is NOT an example of deferred item?
- a) Depreciation
 - b) Accounts payable
 - c) **Unearned revenue**
 - d) Prepaid insurance
255. Which of the following is NOT true about the net income?
- a) **It is a calculated figure and represents actual cash**
 - b) It can be distributed among holders of common stock as a dividend
 - c) It can be held by the firm as retained earnings
 - d) It is obtained by subtracting expenses from the revenues
256. Which of the following statements about a periodic inventory system is TRUE?
- a) **Companies determine cost of goods sold only at the end of the accounting period**
 - b) Companies continuously maintain detailed records of the cost of each inventory purchases
 - c) The periodic system provides better control over inventories than a perpetual system
 - d) The increased use of computerized systems has increased the use of the periodic system
257. Which of the following transactions would increase the net cash flow from operating activities?
- a) **The collection of an account receivable from a customer**

- b) The issuance of capital stock for cash at a price above par
- c) The purchase of a delivery truck by issuing a note payable
- d) The sale of equipment for cash at a gain**

- 258.** Balance Sheet and Accounting Cycle are based on which of the following?
- a) Adjusting entries
 - b) Closing entries
 - c) Financial position
 - d) Accounting Equation**
- 259.** The audit is NOT a necessary requirement for which of the following companies?
- a) Listed companies
 - b) Corporations
 - c) Sole proprietorship**
 - d) Partnerships
- 260.** Which of the following business owner is personally liable for its debts?
- a) Corporations
 - b) Sole proprietorship**
 - c) General partnership
 - d) Limited liability company
- 261.** The rules of GAAP are applicable to all types of companies EXCEPT:
- a) Sole proprietorship
 - b) Corporations
 - c) Partnerships
 - d) None of the given option**
- 262.** Which of the following is NOT an advantage of a Sole proprietorship?
- a) Easy to form and wind up
 - b) Direct motivation
 - c) Better control
 - d) Limited liability**
- 263.** Which of the following is NOT a part of the shareholder's equity?
- a) Paid in capital
 - b) Additional paid in capital
 - c) Net income**
 - d) Retained earnings
- 264.** 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?

- a) In arrears preferred shares
- b) Call able preferred shares
- c) Cumulative preferred shares
- d) Participating preferred shares**

265. What will be the effect of purchases of its own shares by the business on the book value of the business?

- a) Increase the total book value
- b) Decrease total book value
- c) No effect on the total book value**
- d) May or may not change

266. What will be the affect of dividends paid on the book value of a company?

- a) No effect on book value
- b) Increase in book value
- c) Decrease in book value**
- d) Depends upon the situation

267. The amount of current assets that varies with seasonal requirements is referred to as which of the following?

- a) Permanent Working Capital
- b) Net Working Capital
- c) Temporary Working Capital**
- d) Gross Working Capital

268. Which of the following is NOT true about the accounts receivable turnover ratio?

- a) It provides insight into the quality of the firm's receivables**
- b) This ratio is calculated by dividing the receivables to annual credit sales
- c) This ratio tells the number of time accounts receivables have been turned over in a month
- d) The higher the ratio, the better is for company

269. What will be the effect on the day's sales in accounts receivables of a company if it uses a natural business year?

- a) Accounts receivables will be understated**
- b) Accounts receivables will be understated for service firms
- c) Accounts receivables will be overstated
- d) Accounts receivables will be have no effect

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

- a) Assess the past performance
- b) Asses the current financial position
- c) Predict the future performance of the company
- d) Asses the working of management in the future**

271. Which of the following is the percentage change if a negative amount appears in the base year?
- a) Misleading
 - b) Positive
 - c) **Can not be computed**
 - d) Negative
272. When calculating the gross profit percentages, which of the following is used as the base year for each year?
- a) Net sales
 - b) **Net income**
 - c) Gross profit
 - d) Cost of goods sold
273. Which of the following performance measures would be of most direct interest to shareholders?
- a) Return on net assets
 - b) Gross profit margin
 - c) Debt ratio
 - d) **Dividend yield**
274. 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?
- a) Company B
 - b) **Company A**
 - c) Both make the same operating profit
 - d) Not possible to calculate
275. Which of the following statement best describes the operating profit margin?
- a) It shows what portion of profits are being distributed to shareholders
 - b) It shows what return is being made on assets employed in the business
 - c) It shows how well a company is controlling its costs, including overheads
 - d) **It shows how efficiently a company is turning profits into cash**
276. The total legal capital of the company consists of which of the following?
- a) Only common stocks issued
 - b) Only preferred stocks issued
 - c) **Common stocks and preferred stocks**
 - d) Common stocks and retained earnings
277. Which one of the following statement indicates the Inventory turnover

ratio?

- a) How quickly company prepared its inventory
- b) How quickly company converts its inventory into cash
- c) How quickly company purchases its inventory
- d) **How quickly company sells its inventory**

278. Operating cycle belongs to which group of ratios?

- a) Leverage ratios
- b) Liquidity ratios
- c) Profitability ratios
- d) **Activity ratios**

279. The period of time required to convert inventory into cash is known as which of the following?

- a) **Operating cycle**
- b) Accounting cycle
- c) Cash conversion cycle
- d) None of the above

280. What will be effect of purchase of inventory on open account on quick ratio of the company?

- a) **Increase**
- b) Decrease
- c) No effect
- d) Can not be found from the given information

281. What will be the effect of conversion of a portion of bonds payable into common stock on the interest coverage ratio of the company?

- a) Increase
- b) Decrease
- c) No effect
- d) **None**

282. What will be the effect on the current ratio of the company, if company purchased factory supplies on open account?

- a) Increase
- b) Decrease
- c) **No effect**
- d) Cannot be found from the given information

283. Which of the following is NOT an example of liquid assets?

- a) Cash
- b) Accounts receivable
- c) Marketable securities
- d) **Prepaid expenses**

284. Arsh Co. has a note payable to its bank. An adjusting entry is likely to be required on Arsh's books at the end of every month that the loan is outstanding to record which of the following?
- a) Amount of interest paid during the month
 - b) Amount of total interest to be paid when the note is paid off
 - c) Amount of principal payable at the maturity date of the note
 - d) **Accrued interest expense for the month**
285. To measure the business income, life of a business is divided into which of the following?
- a) Divided into specific points in time
 - b) Divided into irregular cycles
 - c) Divided into discrete accounting periods
 - d) **Considered to be a continuous cycle**
286. Posting is performed by transferring information from:
- a) Source documents to the journal
 - b) Ledger to the journal
 - c) Ledger to trial balance
 - d) **Journal to the ledger**
287. Higher Inventory Turnover Ratio means all of the following EXCEPT:
- a) How efficient the inventory management of the firm is?
 - b) How quickly inventory is sold?
 - c) How fast number of times the company sells its inventory during the year?
 - d) **How quickly company converts its account receivables into cash?**
288. Which one of the following is NOT a type of adjusting entries?
- a) Entries to record accrued revenues
 - b) Entries to record accrued expenses
 - c) Entries to distribute un-earned revenue
 - d) **Entries to record revenues**
289. Which one of the following statements is TRUE regarding distributions to stockholders?
- a) The payment of dividends is not directly related to the profits of a given period
 - b) Shareholders can individually decide on their distributions
 - c) **To receive a corporate dividend, stock must be owned on the date of declaration**
 - d) Corporate dividends reduce contributed capital and therefore, stockholders' equity
290. Cash flow relating to investing activities does NOT present the cash effects of which of the following?

- a) Plant assets
- b) Intangible assets**
- c) Investments
- d) Debt financing

291. 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?

- a) Debit - Purchases; Credit - Cash
- b) Debit - Merchandise Inventory; Credit - Cost of Goods Sold
- c) Debit - Office Supplies; Credit - Accounts Payable**
- d) Debit - Merchandise Inventory; Credit - Accounts Payable

292. 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?

- a) Debit Cash 4,000; Credit Common Stock 4,000
- b) Debit Cash 4,000; Credit Common Stock, 1,000, Credit Paid-in-Capital in Excess of Par 3,000
- c) Debit Cash 4,000; Credit common stock 1,000, Credit Retained Earnings 3,000**
- d) Debit Cash 4,000, Debit Paid-in-Capital in Excess of Par 3,000; Credit Common Stock 4,000

293. Suppose that an investor buys shares for Rs. 15 per 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?

- a) Rs. 25
- b) Rs. 5**
- c) Rs. 20
- d) Rs. 30

294. In the vertical analysis of income statement, all the accounts are expressed as a percentage of which of the following?

- a) Net Sales**
- b) Gross sales
- c) Net income
- d) Total expenses

295. The changes in the financial statement items from a base year to following years are often expressed as which of the following?

- a) Trend Percentages**
- b) Component percentages
- c) Common percentages
- d) Both trend and component percentages

296. Which of the following indicates the relative size of each item included

in a total?

- a) Trend percentages
- b) Component Percentages**
- c) Common percentages
- d) Both trend and component percentages

297. 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?

- a) Rs. 0
- b) Rs. 100
- c) Rs. 200**
- d) Rs. 1,000

298. A company can improve (lower) its debt-to-total asset ratio by doing which of the following?

- a) Borrow more
- b) Shift short-term to long-term debt
- c) Shift long-term to short-term debt
- d) Sell Common Stock**

299. Earnings per share, return on sales, and return on equity are all examples of which of the following?

- a) Leverage ratios
- b) Liquidity ratios
- c) Turnover ratios
- d) Profitability Ratios**

300. Which of the following could account for a company's gross profit ratio increasing from one period to the next?

- a) An increase in the cost of sales which has not been accompanied by an increase in the selling price of goods sold
- b) A change in the mix of goods sold so that lower profit margin goods take a greater proportion of total sales
- c) A change in stock valuation method at the year end which leads to a decrease in the closing stock figure
- d) An increase in the selling price of goods sold which has not been accompanied by an increase in the cost of sales**

301. Which of the following is **MOST** likely to offer you the highest rate of return together with the highest risk?

- a) Cash in a building society deposit account
- b) Ordinary shares
- c) Government bonds
- d) Preference Shares**

