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FINAL TERM EXAMINATION

Spring 2010

AFAAQ_TARIQ@YAHOO.COM

FIN621- Financial Statement Analysis (Session - 1)]

2nd paper

: 90 min

Marks: 69

SOLVED WITH REFERABCE BY AFAAQ AND

SHANI BHAI

Question No: 1 (Marks: 1) - Please choose one
Which one of the following is NOT a type of adjusting entries?

- ▶ Entries to record accrued revenues
- ▶ Entries to record accrued expenses
- ▶ Entries to distribute un-earned revenue
- ▶ Entries to record revenues

Types of Adjusting Entries

i) Entries to distribute expenditure benefiting more than one accounting period e.g. fixed assets, pre-paid costs (if for more than one year). Pre-paid costs are initially taken as Asset and corresponding portion for an accounting period is reduced there from. In the case of office supplies, raw materials, the formula is: - opening balance + purchases closing balance. This would give the amount/extent of official supplies, raw materials consumed during the accounting period. It must also be noted that pre paid costs, if consumed entirely during accounting period, are charged directly to expense.

Fixed assets are those which are used for more than one Accounting period.

ii) Entries to distribute un-earned revenue i.e. revenue collected in advance (deferred revenue). It is first recorded as liability, and is gradually reduced in the subsequent accounting period.

iii) Entries to record accrued expenses e.g. unpaid salaries, interest payable, to be paid in the subsequent accounting period.

iv) Entries to record accrued revenues. These are first recorded as Assets i.e. Revenue Receivable. For example if rendering of services/delivery of goods is spread over a number of accounting periods, and billing is to be done at the completion of rendering

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services or delivering goods, then corresponding adjusting entry for each accounting period is made for Revenue Receivable, but not yet earned.

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Question No: 2 (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

http://wps.prenhall.com/bp_werner_ifa_3/8/2254/577225.cw/-/577227/index.html

MCQ # 06

- ▶ 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: 3 (Marks: 1) - Please choose one

Cash flow relating to investing activities does NOT present the cash effects of which of the following?

- ▶ Plant assets
- ▶ Intangible assets
- ▶ Investments
- ▶ Debt financing

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

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

- ▶ Debit - Purchases; Credit - Cash
- ▶ Debit - Merchandise Inventory; Credit - Cost of Goods Sold
- ▶ Debit - Office Supplies; Credit - Accounts Payable
- ▶ Debit - Merchandise Inventory; Credit - Accounts Payable

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

Which of the following is NOT true about the specific identification method?

- ▶ It requires a very detailed physical count
- ▶ This method allows management to easily manipulate ending inventory cost

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- ▶ This method is very hard to use on interchangeable goods
- ▶ This results in an overstated inventory account during the period of inflation

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

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?

- ▶ Rs. 30,000
- ▶ Rs. 90,000

G.P = SALES – C.G.S
G.P = 400000 – 310000
G.P = 90,000

- ▶ Rs. 340,000
- ▶ Rs. 400,000

Question No: 7 (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: 8 (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

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▶ Non operating gains

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter13/multiple_choice_quiz.html
MCQ # 04

- ▶ A decrease in income tax rates
- ▶ A decrease in accounts receivable over the period

Question No: 9 (Marks: 1) - Please choose one
In a statement of cash flows, the acquisition of land by issuing capital stock:

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

Question No: 10 (Marks: 1) - Please choose one
Which of the following opinions state that the financial statements do not present fairly the financial position, results of operations etc, in conformity with GAAP?

- ▶ Unqualified opinion
- ▶ Qualified opinion
- ▶ adverse opinion

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Adverse Opinion

Financial statements do not present fairly the financial position, results of operations, and cash flows in conformity with GAAP.

- ▶ Disclaimer of opinion

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

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Which one of the following is NOT a limitation of financial statements?

- ▶ They always present past
- ▶ They always present the monetary terms
- ▶ They help in assessment of future profitability

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Financial Statements have the limitation that assessment of future profitability is not possible

- ▶ They give no information about management and employee relations

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

Which of the following business owner is personally liable for its debts?

- ▶ Corporations
- ▶ Sole proprietorship

Sole proprietorship

A business entity owned by a single individual, which is unincorporated. The owner of a sole proprietorship is personally liable for any debts or obligations of the business.

http://en.mimi.hu/stockmarket/sole_proprietorship.html

- ▶ General partnership
- ▶ Limited liability company

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

Which of the following characteristics is NOT generally regarded as right of common shareholders?

- ▶ Preemptive right
- ▶ Voting rights

- ▶ Preference in liquidation

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Common shareholders are entitled only to the residual interest in a liquidation; creditors and preferred shareholders have the preference. In the absence of modification, common shares hold a preemptive right, have voting privileges, and are readily transferable.

Q # 02

<http://www.principlesofaccounting.com/questions%20-%20%20multiple%20choice/chapter%2014%20-%20multiple%20choice.htm>

- ▶ Transferability of shares

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

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?

- ▶ Debit Cash 4,000; Credit Common Stock 4,000

▶ Debit Cash 4,000; Credit Common Stock, 1,000, Credit Paid-in-Capital in Excess of Par 3,000

3. b. The journal entry to record the issue of \$1 par-value common stock for \$4 per share is:

| | | |
|----------------------------------|-------|-------|
| Cash | 4,000 | |
| Common Stock | | 1,000 |
| Paid-in Capital in Excess of Par | | 3,000 |

Q # 03

<http://www.principlesofaccounting.com/questions%20-%20%20multiple%20choice/chapter%2014%20-%20multiple%20choice.htm>

- ▶ Debit Cash 4,000; Credit Common Stock, 1,000, Credit Retained Earnings 3,000

▶ Debit Cash 4,000, Debit Paid-in-Capital in Excess of Par 3,000; Credit Common Stock 4,000

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

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?

- ▶ Rs. 25

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▶ Rs. 5

<http://www.scribd.com/doc/20583434/29-Stocks-and-Shares>

▶ Rs. 20

▶ Rs. 30

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

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

▶ Net sales

(PAGE 128)

When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total. The total used by the analyst on the income statement is net sales revenue

▶ Gross sales

▶ Net income

▶ Total expenses

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

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

▶ Trend percentages

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Trend percentages/ Horizontal Analysis/ Index Analysis: This analysis considers changes in items of financial statement from a base year to the following years to show the direction of change. This is also called horizontal analysis.

▶ Component percentages

▶ Common percentages

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- ▶ Both trend and component percentages

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

Which of the following indicates the relative size of each item included in a total?

- ▶ Trend percentages

- ▶ Component percentages

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Component percentages/ Vertical Analysis/ Common- Size Analysis: This type of analysis indicates the relative size of each item in the Financial Statements as a percentage of the total of that Statement i.e. Total Assets or total Liabilities & Shareholders equity in Balance Sheet and Sales in Income Statement.

- ▶ Common percentages

- ▶ Both trend and component percentages

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

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?

- ▶ Rs. 0

- ▶ Rs. 100

- ▶ Rs. 200

- ▶ Rs. 1,000

<http://www.vustudents.net>

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

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

- ▶ Borrow more

- ▶ Shift short-term to long-term debt

- ▶ Shift long-term to short-term debt

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▶ Sell common stock

MCQ # 07

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question No: 21 (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%

Since the debt-to-total assets ratio is .4, then equity-to-total assets ratio is .6. The ratio of debt to equity is then $.4/.6$ or $.667$ (66.7%).

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

MCQ # 10

- ▶ 3%

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

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

- ▶ Leverage ratios
- ▶ Liquidity ratios
- ▶ Turnover ratios
- ▶ Profitability ratios

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

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

▶ An increase in the cost of sales which has not been accompanied by an increase in the selling price of goods sold

▶ An increase in the selling price of goods sold which has not been accompanied by an increase in the cost of sales

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203069.cw/index.htm

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MCQ # 22

- ▶ A change in the mix of goods sold so that lower profit margin goods take a greater proportion of total sales
- ▶ A change in stock valuation method at the year end which leads to a decrease in the closing stock figure

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

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

- ▶ Cash in a building society deposit account
- ▶ Preference shares
- ▶ Ordinary shares

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_8/145/37242/9534033.cw/content/index.html

MCQ # 28

- ▶ Government bonds

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

Assume that a company total paid in capital of Rs. 57,160,000, Preferred shares Rs. 12,000,000 and commons Stock Rs. 14,000,000. Calculate the amount of total legal capital of the company.

- ▶ Rs. 26,000,000

Total legal capital = 12,000,000 (preferred) + 14,000,000 (common) = Rs. 26, 000,000

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- ▶ Rs. 2000,000
- ▶ Rs. 45,160,000
- ▶ Rs. 43,160,000

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

ABC Company has cumulative preferred stock and three years of dividends are owed. Using the following information, calculate the book value per share of the preferred stock.

9% preferred stock, Rs. 100 par, 300 shares authorized and issued Rs. 3,000

Call price Rs. 109

Retained Earnings Rs. 28,000

► Rs. 109

Book value/share: preferred stock

= call price/redemption value / Number of preferred share

= $\frac{300 \times 109}{300} = 109$

300

PAGE # 116

► Rs. 202

► Rs. 211

► Rs. 118

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

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)

► 83 days

► 125 days

► 104 days

Average inventory = opening inv + ending inv / 2

= $\frac{120000 + 180000}{2}$

= 150000

Inventory turnover = CGS / average inventory

= $\frac{530,000}{150000}$

= 3.53

Number of day to sell the inventory = $\frac{365}{3.53}$

= 103.39

► 100 days

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

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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

It shows how quickly inventory is sold and is determined by Inventory Turnover Ratio

Page # 132

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

Operating cycle belongs to which group of ratios?

- ▶ Leverage ratios
- ▶ Liquidity ratios
- ▶ Profitability ratios
- ▶ Activity ratios

Efficiency of operating cycle/process: It is determined by activity ratios

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

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

- ▶ 30%
- ▶ 60%
- ▶ 50%
- ▶ 45%

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

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

- ▶ Increase
- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

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

What will be the effect on the inventory turnover ratio of the company, if it changed from FIFO to LIFO during the period of inflation?

- ▶ Increase
- ▶ Decrease

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- ▶ No effect
- ▶ Can not be found from the given information

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

What will be the effect on the EPS of the company, if it paid stock dividend on common stock?

- ▶ Increase
- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

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

Which of the following is essential to conduct business activity, particularly in times of adversity?

- ▶ Profitability
- ▶ Liquidity

[http://books.google.com/books?id=-](http://books.google.com/books?id=-DSdeU2kheoC&pg=PA22&lpg=PA22&dq=Which+of+the+following+is+essential+to+#v=onepage&q=Which%20of%20the%20following%20is%20essential%20to&f=false)

[DSdeU2kheoC&pg=PA22&lpg=PA22&dq=Which+of+the+following+is+essential+to+#v=onepage&q=Which%20of%20the%20following%20is%20essential%20to&f=false](http://books.google.com/books?id=-DSdeU2kheoC&pg=PA22&lpg=PA22&dq=Which+of+the+following+is+essential+to+#v=onepage&q=Which%20of%20the%20following%20is%20essential%20to&f=false)

- ▶ Stability
- ▶ Solvency

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

Failure to record the receipt of a utility bill for services already received will result in which of the following?

- ▶ An overstatement of assets
- ▶ An overstatement of liabilities
- ▶ An overstatement of equity
- ▶ An understatement of assets

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

Which of the following would be the proper journal entry to record Rs. 1,000 of Dividends paid by ABC Corporation?

- ▶ Debit Dividends 1,000; Credit Cash 1,000

SIMPLE JOURNAL ENTRY

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- ▶ Debit Accounts Payable 1,000; Credit Cash 1,000
- ▶ Debit Dividends Expense 1,000; Credit Cash 1,000
- ▶ Debit Dividends Expense 1,000; Credit Service Revenue 1,000

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

How does the acid test ratio differ from the current ratio?

- ▶ It is concerned with future cash flows rather than historical cash flows
- ▶ It does not differ from the current ratio
- ▶ It excludes the value of stocks
- ▶ It excludes the trade debtors

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

Which of the following provides the basis for the trial balance?

- ▶ Income statement
- ▶ Statement of cash flow
- ▶ Ledger
- ▶ Adjusting entries

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

Which of the following is NOT normally required for revenue to be recognized according to the revenue principle for accrual basis accounting?

- ▶ The price is fixed or determinable
- ▶ Services have been performed
- ▶ Cash that has already been collected

[http://books.google.com.pk/books?](http://books.google.com.pk/books?id=fOAKexV5AtUC&pg=PA108&lpg=PA108&dq=i#v=onepage&q&f=false)

[id=fOAKexV5AtUC&pg=PA108&lpg=PA108&dq=i#v=onepage&q&f=false](http://books.google.com.pk/books?id=fOAKexV5AtUC&pg=PA108&lpg=PA108&dq=i#v=onepage&q&f=false)

- ▶ Evidence of an arrangement for customer payment exists

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

If monthly financial statements are desired by management then:

- ▶ Journalizing and posting adjusting entries must be done each month
- ▶ Journalizing and posting closing entries must be done each month

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▶ Monthly financial statements can be prepared from worksheets; adjustments and closing entries need not be entered in the accounting records

http://highered.mcgraw-hill.com/sites/0072396881/student_view0/chapter5/multiple_choice_quiz.html
MCQ # 08

▶ Adjusting and closing entries must be entered in the accounting records before preparation of interim financial statements

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

ABC Company sold a plant asset that originally cost Rs. 50,000 for Rs. 22,000 cash. If the company correctly reports a Rs. 5,000 gain on this sale, the accumulated depreciation on the asset at the date of sale must be:

▶ Rs. 33,000

Book value = cash - gain
= 22000 - 5000
= 17000

Depreciation = 50000 - 17000
= 33000

- ▶ Rs. 28,000
- ▶ Rs. 27,000
- ▶ Rs. 23,000

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

Which of the following statements is CORRECT regarding depreciation methods?

- ▶ Accumulated depreciation represents a fund being accumulated for the replacement of assets
- ▶ The cost of a machine includes the cost of repairing damage to the machine during the installation process
- ▶ A company may use different depreciation methods in its financial statements and its income tax returns
- ▶ The use of an accelerated depreciation method causes an asset to wear out more quickly than does the straight line method

Question No: 43 (Marks: 1) - Please choose one

The actions taken by the management to make company appear as strong as possible in its financial statements is termed as which of the following?

▶ Window dressing

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Firms can employ “window dressing” techniques to make their financial statements look stronger.

PAGE # 124

- ▶ Understanding
- ▶ Comprehensiveness
- ▶ Materiality

Question No: 44 (Marks: 1) - Please choose one

ABC Company selected ‘Abdullah and Ahmad Chartered Accountants’ as its auditors / accountancy firm. After audit the auditors stated company’s audit report as:
We have examined the accounts of ABC Company up to the year ended 30th June, 2009, and other record based on these accounts and we got all the information required by us. In our opinion the financial statements and the accounts on which they are based have been prepared in conformity with GAAP and present a true and fair position of the affairs of ABC Company.

What do you think the above case is which type of following audit reports?

- ▶ Qualified Audit Opinion
- ▶ Un-qualified Audit Opinion

Unqualified: It states that Financial Statements present information in conformity with GAAP.

“Un-qualified Audit Certificate/Opinion”: We have examined the accounts/financial statements of _____ up to the year ended 30th June, _____, and other record based on these accounts and we got all the information required by us. In our opinion the financial statements and the accounts on which they are based have been prepared in conformity with generally accepted accounting principles, and present a true and fair position of the affairs of _____.

PAGE # 101

- ▶ Adverse Audit Opinion
- ▶ Disclaimer Audit Opinion

Question No: 45 (Marks: 1) - Please choose one

All of the following users are very much concerned with the ratio analysis EXCEPT?

- ▶ Credit analyst, including banks who want to know the credibility of company
- ▶ Bond rating companies, who analyze ratios to help ascertain a company’s ability to pay its debts
- ▶ Customers, who want to know the designs and quality of the products offered

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Ratio analysis is used by three main groups: (1) managers, who employ ratios to help analyze, control, and thus improve their firms' operations; (2) credit analyst, including bank loan officers and bond rating analysts, who analyze ratios to help ascertain a company's ability to pay its debts; and (3) stock analyst, who are interested in a company's efficiency, risk, and growth prospects.

- ▶ Managers, to analyze, control, and thus improve their working operations

Question No: 46 (Marks: 1) - Please choose one

In order to know the percentage of assets financed by creditors, which of the following ratio is calculated?

- ▶ Debt Ratio
- ▶ Equity Ratio
- ▶ Operating credit Ratio
- ▶ Quick Ratio

Question No: 47 (Marks: 1) - Please choose one

Which of the following statement is the LEAST LIKELY to be correct?

▶ A firm that has a high degree of business risk is less likely to want to incur financial risk

▶ There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6679/1709848.cw/content/index.html

MCQ # 09

- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Question No: 48 (Marks: 1) - Please choose one

Which of the following is LEAST likely to be presented in Notes to financial statements of a firm?

- ▶ Significant pending lawsuits

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- ▶ Methods of Cost flow assumptions
- ▶ A firm's capital resource needs and liquidity
- ▶ Sales by region or business segment

Question No: 49 (Marks: 3)

What do you understand by the efficiency of the operating cycle?

It is determined by activity ratios, keeping in view the conversion process, which is as follows:-

ANSWER

Efficiency of operating cycle/process: It is determined by activity ratios, keeping in view the conversion process, which is as follows:-

Cash/assets ---- → Inventory ----→ Receivables ---- → Cash
Processing Sales, collection

Operating Cycle=Inventory sale days (average) +Receivable Collection days (average).

The shorter the operating cycle, the higher the quality of current assets and the greater the efficiency of management

Question No: 50 (Marks: 3)

What will be the effect on the book value per share of the common stock of a company, if the corporation obtains a loan?

ANSWER

When a corporation obtains a bank loan there is no effect upon book value per share of common stock. Assets and liabilities both increase by its amount. Therefore, net assets will remain unchanged.

Question No: 51 (Marks: 5)

Current assets and current liabilities data for companies D and E are summarized as follows:

Company D Company E

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| | | |
|---------------------|-------------|-------------|
| Current assets | Rs. 400,000 | Rs. 900,000 |
| Current liabilities | 200,000 | 700,000 |
| Working capital | Rs. 200,000 | Rs. 200,000 |

Requirement:

Evaluate the relative liquidity of the companies. Which company is more favorable?

ANSWER

1. For Company D:

$$\begin{aligned}\text{Current Ratio} &= \text{Current Assets} / \text{Current Liabilities} \\ &= 400,000 / 200,000 \\ &= 2\end{aligned}$$

2. For Company E:

$$\begin{aligned}\text{Current Ratio} &= \text{Current Assets} / \text{Current Liabilities} \\ &= 900,000 / 700,000 \\ &= 1.285\end{aligned}$$

SO Company D is more favorable than E.

Question No: 52 (Marks: 5)

Following is the balance sheet of the ABC Company.

ABC Corporation

Balance Sheet

Mar. 31, 1991

Assets

| | | |
|---|-------------|---------|
| Cash | Rs. 12,500 | |
| Notes receivables | 104,000 | |
| Accounts receivables (net) | 68,500 | |
| Inventories at cost | 50,000 | |
| Plant & equipment (net of depreciation) | | 646,000 |
| Total assets | Rs. 881,000 | |
| Liabilities & Stockholder's equity | | |
| Accounts payable | Rs. 72,000 | |
| Notes payable | 54,500 | |
| Accrued liabilities | 6,000 | |
| Common stock (60,000 shares, Rs. 10par) | | 600,000 |
| Retained earnings | 148,500 | |

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Total liabilities and owner's equity Rs. 881,000

Requirement:

Calculate the current ratio and quick ratio for both years. (2.5+ 2.5)

ANSWER

1. Current Ratio = Current Assets / Current Liabilities
= 235,000 / 132,500
= 1.77

2. Quick Ratio = Current Assets - Inventories / Current Liabilities
= (235,000 - 50,000) / 132,500
= 185,000 / 132,500
= 1.39

Question No: 53 (Marks: 5)

You have been given the two years data of XYZ company as follows:

| | 2005 | 2004 |
|-----------------------|-----------|-----------|
| Net sales | 1,493,622 | 1,403,243 |
| Assets: | | |
| Beginning of the year | 1,039,731 | 889,584 |
| End of year | 1,143,701 | 1,039,731 |

Calculate the Total Assets Turnover ratio for both years.

ANSWER

1. For Year 2005:
Total Assets Turnover Ratio = 1,493,622 / 1,114,3701
= 0.134

2. For Year 2004:
Total Assets Turnover Ratio = 1,403,243 / 1,039,731

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= 1.349

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