Dire Dawa University
College of Business & Economics
Department of Accounting & Finance

Model Examination on Accounting

Time allowed: 3:00 Total Weight: 65%

Name: _____ ID: _____ Sec: _____

Instruction:

- *Measure your Preparation for Exit Exam*

- *You can use the following arrangement for your work*

Content of Items	**Quantity**	**Score**
Fundamentals of Accounting I	20	
Fundamentals of Accounting II	17	
Intermediate Accounting I	12	
Intermediate Accounting II	16	
Total	**65**	

Wish you a nice work!!!

Part I: Choose the correct answer from the alternatives given under each question and put your answer on the answer sheet provided. (1 pts each)

1. Which of the following statements about users of accounting information is incorrect?

A. Management is an internal user.

B. Taxing authorities are external users.

C. Present creditors are external users.

D. Regulatory authorities are internal users

2. Which of the following events is not recorded in the accounting records?

A. Equipment is purchased on account.

B. An employee is terminated.

C. A cash investment is made into the business.

D. The company pays a cash dividend.

3. During 2015, Gibson Company's assets decreased Br. 50,000 and its liabilities decreased Br. 90,000. Its equity therefore:

A. Increased $40,000.

C. Decreased $40,000.

B. Decreased $140,000.

D. Increased $140,000

4. Payment of an account payable affects the components of the accounting equation in the following way:

A. Decreases equity and decreases liabilities.

B. Increases assets and decreases liabilities.

C. Decreases assets and increases equity.

D. Decreases assets and decreases liabilities.

5. On the last day of the period, Jim Otto Company buys a $900 machine on credit. This transaction will affect: -

A. Income statement only.

B. Statement of financial position only.

C. Income statement and retained earnings statement only

D. Income statement, retained earnings statement, and statement of financial position

6. Performing services on account ill have the following effects on the components of the basic accounting equation:

- **A.** Increase assets and decrease equity
- **B.** Increase assets and increase equity
- **C.** Increase assets and increase liabilities.
- **D.** Increase liabilities and increase equity.

7. Which of the following statements about an account is true?

- **A.** In its simplest form, an account consists of two parts.
- **B.** An account is an individual accounting record of increases and decreases in specific asset, liability, and equity items.
- **C.** There are separate accounts for specific assets and liabilities but only one account for equity items.
- **D.** The left side of an account is the credit or decrease side.

8. The expanded accounting equation is:

- **A.** Assets + Liabilities = Share Capital + Retained Earnings + Dividends +Revenues + Expenses
- **B.** Assets = Liabilities + Share Capital + Retained Earnings +Dividends + Revenues - Expenses
- **C.** Assets = Liabilities - Share Capital - Retained Earnings - Dividends -Revenues - Expenses
- **D.** Assets = Liabilities + Share Capital +Retained Earnings - Dividends + Revenues – Expenses

9. Which of the following statements about a journal is false?

- **A.** It is not a book of original entry.
- **B.** It provides a chronological record of transactions.
- **C.** It helps to locate errors because the debit and credit amounts for each entry can be readily compared.
- **D.** It discloses in one place the complete effect of a transaction

10. The trial balance of Cool Corporation had accounts with the following normal balances: Cash Br. 5,000, Service Revenue Br. 85,000, Salaries and wages Payable Br. 4,000, Salaries and ages Expense Br. 40,000, Rent Expense Br. 10,000, Share Capital—Ordinary Br. 42,000, Dividends Br. 15,000, and Equipment Br. 61,000. In preparing a trial balance, the total in the debit column is:

- **A.** Br. 131,000
- **B.** Br. 216,000.
- **C.** Br. 91,000.
- **D.** Br. 116,000.

11. Which of the following statements about the accrual basis of accounting is false?

- **A.** Events that change a company's financial statements are recorded in the periods in which the events occur.
- **B.** Revenue is recognized in the period in which services are performed.
- **C.** The accrual basis is in accord with IFRS.
- **D.** Revenue is recorded only hen cash is received, and expense is recorded only hen cash is paid.

12. 12. The trial balance shows Supplies $0 and Supplies Expense $1,500. If $800 of supplies are on hand at the end of the period, the adjusting entry is:

A. Debit Supplies $800 and credit Supplies Expense $800.
B. Debit Supplies Expense $800 and credit Supplies $800.
C. Debit Supplies $700 and credit Supplies Expense $700.
D. Debit Supplies Expense $700 and credit Supplies $700
E. The proper order of the following steps in the accounting cycle is:

13. When Alexander Company purchased supplies Worth Br. 500, it incorrectly recorded a credit to Supplies for Br. 5,000 and a debit to Cash for Br. 5,000. Before correcting this error:

A. Cash is overstated and Supplies is overstated.
B. Cash is understated and Supplies is understated.
C. Cash is understated and Supplies is overstated.
D. Cash is overstated and Supplies is understated

14. On December 31, Voris Company correctly made an adjusting entry to recognize Br.2,000 of accrued salaries payable. On January 8 of the next year, total salaries of Br. 3,400 were paid. Assuming the correct reversing entry was made on January 1, the entry on January 8 will result in a credit to Cash Br. 3,400 and the following debit(s):

A. Salaries and wages Payable Br. 1,400 and Salaries and wages Expense Br. 2,000.
B. Salaries and wages Payable Br. 2,000 and Salaries and wages Expense Br. 1,400.
C. Salaries and wages Expense Br. 3,400.
D. Salaries and wages Payable Br. 3,400.

15. Atlantis Company's ending inventory is understated Br. 4,000. The effects of this error on the current year's cost of goods sold and net income, respectively, are:

A. Understated, overstated

B. Overstated, understated

C. Overstated, overstated

D. Understated, understated

16. Which of the following should not be included in the physical inventory of a company?

A. Goods held on consignment from another company.

B. Goods shipped on consignment to another company.

C. Goods in transit from another company shipped FOB shipping point.

D. All of the above should be included.

17. Permitting only designated personnel to handle cash receipts is an application of the principle of:

A. Segregation of duties.

B. Establishment of responsibility.

C. Independent check

D. Human resource controls

18. Which of the following statements correctly describes the reporting of cash?

A. Cash cannot be combined with cash equivalents.

B. Restricted cash funds may be combined with cash.

C. Cash is listed last in the current assets section.

D. Restricted cash funds cannot be reported as a current asset.

19. The reconciling item in a bank reconciliation that ill result in an adjusting entry by the depositor is:

A. Outstanding checks.

B. Deposit in transit.

C. A bank error.

D. bank service charge

20. One of the following statements about promissory notes is incorrect. The incorrect statement is:

A. The party making the promise to pay is called the maker.

B. The party to hom payment is to be made is called the payee.

C. A promissory note is not a negotiable instrument.

D. A promissory note is often required from high risk customers.

21. The inventory system employing accounting records that continuously disclose the amount of inventory is called?

A. Periodic

B. Perpetual

C. Physical **D.** Retail

22. A goods enter into production process but does not yet completed is called?

A. Raw material **C.** Finished goods

B. Work in process **D.** Cost of goods sold

23. ABC. Company is taking a physical inventory on March 31, the last day of its fiscal year. Which of the following must be included in this inventory count?

A. Goods in transit to ABC, FOB destination

B. Goods that ABC is holding on consignment for XYZ. Company

C. Goods in transit that ABC. has sold to Dire Company, FOB shipping point

D. Goods that ABC. is holding in inventory on March 31 for which the related Accounts Payable is 15 days past due.

24. Which depreciation method gives highest amount of depreciation expense in the first years and smaller amount in the preceding years?

A. Straight line method **D.** Sum-of the years digit method

B. Units of production **E.** A and C

C. Double declining method **F.** C and D

25. What is the amount of depreciation, using the double-declining-balance method for the second year of use for equipment costing $9,000, ith an estimated residual value of $600 and an estimated life of three years?

A. 4,000 **C.** 3,000

B. 6,000 **D.** 2,000

26. Star co. uses straight line method of depreciation, the annual depreciation expense for 2010 is br. 4,000.the cost of the asset is br. 20,000 and the salvage value is br.0.hat ill be the expected useful life of the asset?

A. 3 years **C.** 5 years

B. 4 years **D.** 6 years

27. The cost of a machine as Br.50,000 ; the estimated salvage value is Br.10,000 and the depreciation per hour is 4.hat ill be the estimated useful life under unit of production?

A. 10,000 units
C. 5,000 units
B. 20,000 units
D. 15,000 units

28. Abush had orked overtime in the public holiday for 15 hours. The basic salary is Br.4,000 and expected orking hour is 40 per eek. hat ill be the overtime earning?

A. 750
C. 562.5
B. 468.75
D. 937.5

29. Permanent employees of an organization, hich are governed by the ne regulations of the Ethiopian public servants, are expected to pay or contribute _____ and the employer are expected to contribute _____of employee monthly basic salary to the government pension trust fund.

A. 10% and 7% respectively
D. 4 % and 14% respectively
B. 6% and 12% respectively
E. 7% and 11% respectively
C. 5% and 7% respectively

30. Creditors can take the personal assets of the partners if the debt is above the partners investment to the business, this characteristics of partnership is?

A. Unlimited liability of partners
C. Limited liability of partners
B. Mutual agency of partner
D. Limited life of partners

Assume the following information and answer question (31-36).

Ato Bekele ants to join the partnership of Abebe, Bikila and Chane called ABC Ltd co. and they agreed to accept Ato Bekele on February 20, 2020. ABC Ltd co. has total capital of Br. 2,300,000 oned by Abebe, Bikila and Chane in capital ratio of 3:4:3 respectively before admission of Ato Bekele.

31. What is the amount of capital oned by Bikila before admission of Ato Bekele?

A. Br. 690,000
C. Br. 290,000
B. Br. 920,000
D. Br. 960,000

32. What Would be the amount of capital oned by Ato Bekele, if Chane sold his half of ownership right to Bekele?

A. Br. 690,000 C. Br. 345,000

B. Br. 460,000 D. Br. 960,000

33. Assume that the net income for the year is Br. 965,000 and income/loss division ratio is 3:2:3:2 for Abebe, Bikila, Chane & Bekele respectively. If total net income is distributed to all partners by their ratio, hat ould be the share of income for chane?

A. Br. 193,000 C. Br. 89,500

B. Br. 19,000 D. Br. 289,500

34. A factor which distinguishes the corporate form of organization from a sole proprietorship or partnership is that;

A. a corporation is organized for the purpose of making a profit.

B. a corporation is subject to numerous federal and state government regulations.

C. a corporation is an accounting economic entity.

D. a corporation's temporary accounts are closed at the end of the accounting period.

35. Which one of the following would not be considered an advantage of the corporate form of organization?

36.. Limited liability of owners C. Continuous life

B. Separate legal existence D. Government regulation

37. If common stock is issued for an amount greater than par value, the excess should be credited to:

A. Cash. **C.** Paid-in Capital in Excess of Par Value.

B. Retained Earnings. **D.** Legal Capital

38. Which of the following statements explains best "Relevant information" as indicators of useful financial information?

A. Information that is capable of making a difference in the decisions of users in their capacity as capital providers.

B. Quality of information that assures users that information represents the economic phenomena that it purports to represent.

C. Having information available to users before it loses its capacity to influence decisions

D. Absence of bias intended to attain a predetermined result or to induce a particular behavior

39. Which of the following is the accounting effect of going concern concept assumption

A. Assets should be valued at their liquidation price
B. Asset should be valued at their historical cost
C. Revenue to be recognized in the period of its realization
D. Classification of Assets and liabilities in to current and non current

The carrying amount for a tangible asset at which has been Reported on the statement of financial position is Br, 123,245. Currently it is valued in the market (fair value) at Br, 125,000. However it's disposal cost (cost to sale) is Br, 2,000. Alternatively the entity expects to generate Br, 20, 000 each year for the coming 5 years and finally ill sell the asset for Br, 30,000.

Based on information above answer question 40

40. Compute the impairment loss that should be recognized for the tangible asset

A. Br, 97290.97
B. Br, 25954.02
C. Br, 245
D. None

Cox Company began operations in 2013 and adopted weighted-average pricing for inventory. In 2015, in accordance with other companies in its industry, Zehms changed its inventory pricing to FIFO. The pretax income data is reported below.

Year	Weighted-Average	FIFO
2013	$370,000	$395,000
2014	390,000	420,000
2015	410,000	460,000

Based on information above answer questions 41 and 42

41. Which of the following statements is not true to account the change?

A. the change from weighted average to FIFO should be treated prospectively
B. the change from weighted average to FIFO should be treated retrospectively
C. income before income tax for the year 2015 should be reported at $ 460,000

D. Inventory account at the beginning of 2016 is increased by $55,000

42. At the beginning of 2015, the retained earnings accounts by

A. Credit :$ 55,000
C. Debit $36,750
B. Debit $19250
D. Credit $35,750

43. Which of the following measures is the recording value of short term account receivable subsequent to recognition?

A. Cash realizable value
C. Amortized cost
B. Book value less Allowance
D. Fair value

44. If effective interest rate is above stated interest rate, at which of the following values should a note receivable be measured subsequent to its initial recognition

A. Prior discounted value minus amortized premium
B. Prior discounted value plus amortized discount
C. Face value plus amortized discount
D. Prior discounted value plus amortized premium

45. Which of the following statements shows faithful representation of financial information?

A. financial information which contains an entity's all necessary financial information
B. financial information prepared to favor creditors in their decision for lending
C. financial information that contains misstated creditors account
D. financial information which shows the correct financial status of an entity
E. B and D
F. A and D

46. On January1, 2018 the service life of certain equipment was changed from 8 to 5 years after it depreciates for 2 years. As a result the annual depreciation expense is decreased from Br, 10,000 to Br, 7,300 per year. Then which of the following is the correct accounting treatment of the change. Tax rate is 35%.

A. The retained earning account should be credited for the cumulative effect of the change on net income Br, 3510
B. Prior years income statements should be restated as per the new change on depreciation

C. Consecutive years statement (starting 2018) should only be adjusted for the change

D. the pervious estimation for periodic depreciation should be used (applied) consistently

47. Which of the following statements is false about accounting for investment held for sale?

A. They are reported on the current asset section of statement of financial position

B. Any unrealized holding gain /loss from its market value change is reported on comprehensive income statement

C. Its presentation value is amortized cost

D. Its presentation value is fair value

48. Based on information above, What is the earning per share of the company

A. Br, 1.096

B. Br, 1.6

C. Br, 1.285

D. Br, 1.411

49. Based on the information given, which would be the fair value of the non financial asset?

A. Br, 7 million

B. Br, 5 Million

C. Br, 2 million

D. None

50. Of the following items, the only one which should NOT be classified as a current liability is

A. Current maturities of long – term debt.

B. Sales taxes payable.

C. Short – term obligations expected to be refinanced.

D. Unearned revenues.

51. Shalla Company has total proceeds from sales of ETB 4,600. If the proceeds include value added taxes of 15%, the amount to be credited to Sales is:

A. ETB 4,000.

B. ETB 4,300.

C. ETB 5,290.

D. No correct answer is given.

52. Typical examples of provisions include:

A. Lawsuits

B. guaranties

C. Onerous contracts

D. Unearned revenue

53. Examples of contingent assets include all of the following, *EXCEPT*:

A. Unrealized gain on the sale of investments.

B. Pending lawsuit with a favorable outcome.

C. Possible refunds from the government in tax disputes.

D. Possible receipts of monies from gifts, donations, bonuses.

54. If a corporation plans to issue ETB 1,000,000 of 12% bonds at a time hen the market rate for similar bonds is 10%, the bonds can be expected to sell at:

A. Their face amount

B. A premium

C. A discount

D. A price below their face amount

55. The residual claim in a corporation belongs to the

A. Management.

B. Creditors.

C. Ordinary shareholders.

D. Preference shareholders

56. All of the following features are often associated with preference shares, *EXCEPT*:

A. Preference shares are callable at the option of the corporation.

B. Preference shares have a voting right.

C. Preference shares have preference as to dividends and assets up on firms' liquidation.

D. Preference shares may be convertible into ordinary shares.

57. Which of the following is not a primary reason why corporations invest in debt and equity securities?

A. They wish to gain control of a competitor.

B. They have excess cash.

C. They wish to move into a new line of business.

D. They are required to by la.

58. The equity method of accounting for long – term investments in stock should be used hen the investor has significant influence over an investee and ons:

A. 20% or more of the investee's ordinary shares.

B. Between 20% and 50% of the investee's ordinary shares.

C. More than 50% of the investee's ordinary shares.

D. Less than 20% of the investee's ordinary shares.

59. Which of the following is *INCORRECT* about the statement of cash flos?

A. It provides information about cash receipts and cash payments of an entity during a period.

B. It reconciles the ending cash account balance to the balance per the bank statement.

C. It is a fourth basic financial statement.

D. It provides information about the operating, investing, and financing activities of the business.

60. The net income reported on the income statement for the year as ETB 55,000, and depreciation of fixed assets for the year as ETB 22,000. The balances of the current asset and current liability accounts at the beginning and end of the year are shown below.

	Ending	*Beginning*
Cash	ETB 65,000	ETB 70,000
Accounts receivable	100,000	90,000
Inventories	145,000	150,000
Prepaid expenses	7,500	8,000
Accounts payable(merchandise creditors)	51,000	58,000

61. The total amount reported for cash flows from operating activities in the statement of cash flows, using the indirect method, is:

A. ETB 65,500.

B. ETB 77,000.

C. ETB 33,000.

D. ETB 55,000

62. Aliya Company reports:

Cash provided by operating activities	ETB 250,000
Cash used by investing activities	110,000
Cash provided by financing activities	140,000
Beginning cash balance	70,000

63. What is aliya Company's ending cash balance?

A. Br 280,000.

B. Br 350,000.

C. Br 500,000.

D. Br 570,000

64. Rent received in advance by the lessor for an operating lease should be recognized as revenue

A. When received

B. At the lease's inception

C. In the period specified by the lease

D. At the lease's expiration

65. A change in accounting estimates should

A. Result in restatement of prior period statements.

B. Be handled in current and future periods.

C. Be handled in future periods only.

D. Be handled retroactively.