UNITY UNIVERSITY
DEPARTMENT OF ACCOUNTING AND FINANCE
ADAMA CAMPUS
MODEL EXAM

Max. Time allowed: 3 Hr.
Prepared by; ACFN Department
February:10/ 2023

General Instructions:

Read the following instructions very carefully!

- ✓ *Write your name, Id and section both on question paper and answer sheet.*
- ✓ *Cheating and an attempt to do so shall result in total cancellation of your results.*
- ✓ *Switch off your cell phone.*
- ✓ *Use the space provided for your answer.*
- ✓ *Return both the question paper and answer sheet to your respective invigilator.*

BOOKLET No 1 Fundamentals of Accounting I

Instruction: Choose the best answer from the given alternatives and write the letter of your answer on the separate answer sheet provided to you.

1. Which of the following would not be considered an internal user of accounting data for the ABC Company?

A. President of the company B. Production manager

C. Merchandise inventory clerk D. President of the employees' labor union

2. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)

A. Account payable. B. Account receivable.

C. Revenue. D. Expense.

3. The cost of assets consumed or services used is also known as

A. Revenue. B. An expense. C. A liability. D. An asset.

4. The best definition of assets is the

A. Cash owned by the company.

B. Collections of resources belonging to the company and the claims on these resources.

C. Owners' investment in the business.

D. Resources belonging to a company that have future benefit to the company.

5. To show how successfully your business performed during a period of time, you would report its revenues and expenses in the

A. Balance sheet. B. Income statement.

C. Statement of cash flows. D. Retained earnings statement.

6. Ashley's Accessory Shop started the year with total assets of $210,000 and total liabilities of $120,000. During the year the business recorded $330,000 in revenues, $165,000 in expenses, and dividends of $60,000. The net income reported by Ashley's Accessory Shop for the year

A.$120,000. B. $150,000. C. $195,000. D. $165,000.

7. As of January 1, 2022, Elena's Store had a balance in its retained earnings account of $100,000. During the year Elena's Store had revenues of $80,000 and expenses of $45,000. In addition, the business paid cash dividends of $20,000. What is the balance in Retained Earnings at December 31, 20XX for Elena's Store?

A. $100,000 B. $115,000 C. $135,000 D. $155,000

8. Which of the following financial statements is concerned with the company at a point in time? A. Balance sheet B. Income statement

C. Retained earnings statement D. Statement of cash flows

9. An income statement

A. Summarizes the changes in retained earnings for a specific period of time.

B. Reports the changes in assets, liabilities, and stockholders' equity over a period of time.

C. Reports the assets, liabilities, and stockholders' equity at a specific date.

D. Presents the revenues and expenses for a specific period of time.

10. Which of the following accounts is a liability account?

A. Dividends B. Cash C. Accounts Payable D. Capital Stock

11. A debit may signify a(n):

A. Increase in asset accounts B. Increase in liability accounts

C. Increase in the capital account D. Decrease in expense accounts

12. Which of the following applications of the rules of debit and credit is true?

A. Increase rent expense with debits and the normal balance is a debit.

B. Decrease accounts receivable with credits and the normal balance is a credit.

C. Increase accounts payable with credits and the normal balance is a debit.

D. Decrease cash with debits and the normal balance is a credit.

13. Which of the following entries records the payment of an account payable?

A. Debit Accounts Payable, credit Cash B. Debit Cash, credit Accounts Payable

C. Debit Expense, credit Cash D. Debit Cash, credit Expense

14. An error was discovered in computing and paying the wages of an employee of Allen Appliance Repair. Allen received cash from the employee for the amount of the overpayment. Which of the following entries for Allen records this transaction?

A. Wages Payable, debit; Wages Expense, credit

B. Wages Expense, debit; Wages Payable, credit

C. Wages Expense, debit; Cash, credit

D. Cash, debit; Wages Expense, credit

15. If an expense is incurred but not paid, then

A. Liabilities will increase B. Stockholder's equity will increase

C. Assets will decrease D. Expenses will decrease

16. The process of transferring entries from the journal to the ledger is called:

A. Journalizing B. Transferring C. Posting D. Balancing

17. When purchases of merchandise are made on account, the transaction would be recorded with the following entry:

A. Debit Accounts Payable, credit Merchandise Inventory

B. Debit Merchandise Inventory, credit Accounts Payable

C. Debit Merchandise Inventory, credit Cash

D. Debit Cash, credit Merchandise Inventory

18. Merchandise with an invoice price of $7,000 is purchased with terms of 2/10, n/30, FOB shipping point. Transportation costs paid by the seller were $125. What is the cost of the merchandise purchased if payment is made during the discount period?

A. $6,860.00 B. $6,982.50 C. $7,000.00 D. $6,985.00

19. The discount period for credit terms of 1/10, n/30 is:

A. 1 day B. 10 days C. 20 days D. 30 days

20. Which of the following is not a principle of internal control?

A. Segregation of duties B. Documentation procedures

C. Collusion between employees D. Bonding of employees

21. In a perpetual inventory system, what accounts are credited when a customer returns merchandise to the seller?

A. Sales Returns and Allowances and Accounts Receivable

B. Accounts Receivable and Cost of Merchandise Sold

C. Merchandise Inventory and Cost of Merchandise Sold

D. Sales Returns and Allowances and Merchandise Inventory

22. Which of the following accounts is credited by the seller when merchandise purchases are paid for within the discount period?

A. Merchandise Inventory B. Accounts Payable

C. Accounts Receivable D. Sales Discounts

23. Receipts from cash sales of $7,500 were recorded incorrectly in the cash receipts journal as $5,700. This item would be included on the bank reconciliation as:

A. An addition to the balance per depositor's records

B. An addition to the balance per bank statement

C. A deduction from the balance per bank statement

D. A deduction from the balance per depositor's records

24. An adjusting entry is required for

A. Outstanding checks B. Deposits in transit C. Bank errors D. NSF checks

25. A note receivable due in 5 years is listed on the balance sheet under the caption:

A. Investments B. Current Assets C. Plant Assets D. Stockholders' Equity

26. The two methods of accounting for uncollectible receivables are the direct write-off method and the:

A. Percentage of receivables method B. Aging of credit sales method

C. Interest method D. Allowance method

27. The amount of the promissory note plus the interest earned on the due date is called the:

A. Realizable value B. Face value C. Net realizable value D. Maturity value

28. An association of two or more persons to carry on business as co- owner for profit is known as:

A. Corporation B. Sole proprietorship

C. Partnership D. NGO

29. The types of business organization that purchase goods for resale is known as:

A. Manufacturing business B. Merchandising business

C. Service business D. No such kind of business

30. A statement that shows the financing position of the business is known as:

A. Balance sheet B. Owner's equity statement

C. Income statement D. Cash flows statement

31.On income statement the excess of net sale over the cost of goods sold represents:

A. Operating expense B. Gross profit

C. Income from operation D. Net income

32. If the beginning and ending of merchandise inventory are br. 400 and br. 700 respectively and cost of goods sold is Br 3,400, the net purchase will be:

A. Br 3,700 B. Br 3,100 C. Br. 3,400 D. None

33. Un earned revenues are classified as:

A. Liability B. Asset C. Revenue D. Expense E. None

34. Which of the following is/are used to control or protect cash:

A. All cash received should be deposited in a bank daily

B. All cash payment, except for petty cash, should be made by check

C. Only small amount of cash should be kept on hand

D. Different persons should be involved in the receipt, payment and recording of cash

E. All of the above

35. Which of the following accounts will appear in the post-closing trial balance of a business?

A. Drawings B. Wages expense

C. Accumulated depreciation D. Sales revenue

36. The types of business organization that purchase goods for resale is known as:

A. Manufacturing business B. Merchandising business

C. Service business D. No such kind of business

37. An item with money value that are owned by a business are:

A. Liability B. Owner's equity statement

C. Revenue D. Asset

38. Which of the following would be classified in an income statement as Other Income or Other Expense?

A. Advertising Expense B. Interest Expense

C. Transportation Out D. Cost of merchandise sold

39. Merchandise with an invoice price of $7,000 is purchased with terms of 2/10, n/30, FOB shipping point. Transportation costs paid by the seller were $125. What is the cost of the merchandise purchased if payment is made during the discount period?

A. $6,860.00 B. $6,982.50 C. $7,000.00 D. $6,985.00

40. When a corporation sells merchandise and the terms are FOB shipping point and pays the shipping costs, the seller would record the transportation costs with the following entry:

A. Debit Cash, credit Accounts Receivable

B. Debit Accounts Receivable, credit Sales

C. Debit Accounts Receivable, credit Cash

D. Debit Merchandise Inventory, credit Accounts Payable

Instruction: Choose the best answer from the given alternatives and write the letter of your answer on the separate answer sheet provided to you.

1. Financial information capable of making a difference in a decision is

A. Consistent B. Neutral C. Relevant D. Verifiable

2. Relevant financial information

A. Represents what it purports to represent

B. Is measured in a similar manner among different companies

C. Does not favor one set of interested parties over another

D. Is capable of making a difference in a decision

3. When financial information is reported in a similar manner among different companies in the same industry it is

A. Neutral. B. Verifiable. C. Faithfully represented. D. Comparable

4. Why is a conceptual framework necessary?

A. To provide a theoretical base to prepare financial statements

B. To provide concept on which to build a framework

5. _____helps the users of financial information to differentiate, analyze, improve, and make decisions.

A. Comparability B. B. Understandability C. Reliability

6. Which of the following defines the term ‘fair value’?

A. The price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the reporting date under current market conditions

B. price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

C. The weighted average price at which orderly transactions to sell assets or to transfer liabilities are taking place between market participants at the reporting date in the relevant market

D. The entry price at the measurement date from the perspective of a market participant that holds the asset or owes the liability

7. Definition of fair value focuses on _____ because they are a primary subject of accounting measurement.

A. Assets and liabilities

C. Observable and unobservable inputs

B. Rights and obligations

D. Entry price and exit price

8. IFRS 13 does not specify the unit of account for measuring fair value. This means that it is left to the individual standard to determine the unit of account for fair value measurement. What is meant by the 'unit of account'?

A. The single asset or liability or group of assets or liabilities

B. The value of the asset or liability

C. The collection of assets or liabilities of which these elements form part

D. The market value of the asset or liability

9. Fair value measurements are categorized into a three-level hierarchy, based on the type of inputs to the valuation techniques used. What inputs are required for a fair value measurement to be classified as level 3 inputs?

A. Inputs which must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability

B. Inputs based on the highest and best use of the asset as determined by a market participant

C. Inputs other than quoted prices that are directly or indirectly observable for that asset or liability

D. Unadjusted quoted prices in active markets for items identical to the asset or liability being measured

10. Fair value measurements are categorized into a three-level hierarchy, based on the type of inputs to the valuation techniques used. What inputs are required for a fair value measurement to be classified as level 1 inputs?

A. Unadjusted quoted prices in active markets for items identical to the asset or liability being measured

B. Inputs based on the highest and best use of the asset as determined by a market participant

C. Inputs other than quoted prices that are directly or indirectly observable for that asset or liability

D. Inputs which must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability

11. Entry to replenish a petty cash fund includes a credit to

A. Petty Cash B. Cash C. Fright in D. Postage Stamp

12. A $300 petty cash fund has cash of $39 and receipts of $255. The journal entry to replenish the account would include

A. debit to Cash for $255

B. Credit petty cash for $ 255

C. Debit petty cash for $261

D. Credit to cash for $ 261

13. A check written by the company for $167 is incorrectly recorded by a company as $176. On the bank reconciliation, the $9 error should be

A. Added to the balance per books.

B. Deducted from the balance per books.

C. Added to the balance per bank.

D. Deducted from the balance per bank.

14. A 90-day note dated April 20 would mature on

A. July 19 B. July 21 C. July 20 D. July 18

15. Under the direct write-off method of accounting for uncollectible accounts, Bad Debt Expense is debited

A. When a credit sale is past due.

B. At the end of each accounting period.

C. Whenever a pre-determined amount of credit sales have been made.

D. When an account is determined to be uncollectible.

16. An aging of a company's accounts receivable indicates that $6,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $2,000 debit balance, the adjustment to record bad debts for the period will require a

A. Debit to Bad Debt Expense for $8,000.

B. Debit to Allowance for Doubtful Accounts for $8,000.

C. Debit to Bad Debt Expense for $4,000.

D. Credit to Allowance for Doubtful Accounts for $4,000.

17. Which of the following does the cost of inventories comprise?

A. Costs of purchase

B. Cost of conversion

C. Costs incurred in bringing the inventories to their present location

D. Costs incurred in bringing the inventories to their present condition

E. A and C F. All of the above

18. Which of the following item/s is/are fall under the category of inventory IAS 2?

A. Work in process arising under construction contracts

B. Financial instruments

C. Raw materials, parts, work in process, and finished goods

D. Biological assets related agricultural activities and agricultural produce

19. Which of the following inventory cost flow assumption is excluded from IAS 2?

A. FIFO B. Weighted average C. LIFO D. Specific identification

20 An inventory estimating method

A. FIFO B. Gross profit method C. Specific identification D. A and B

21. Which of the following is an item to be included in a cost of inventory?

A. Selling cost B. Processing cost C. Abnormal waste D. Storage co

22. An entity has a policy of revaluing its PPE. An asset cost $5m on 1 January 2008 and has a useful life of five years and is depreciated on a straight-line basis to a zero residual value. The value of the asset at 31 December 2008 was $3.8m. The fall in value will be accounted for as follows -

A. Depreciation $1m and fall in value of $200,000 both to the income statement

B. Depreciation $1m to income statement and fall in value of $200,000 to the reserves

C. Depreciation $1m and fall in value of $200,000 both to the reserves

D. Depreciation $1m to the income statement and fall in value of $200,000 ignored until there is a revaluation surplus

23. IAS 16 requires a revaluation surplus resulting from initial revaluation of PPE to be treated in one of the following ways –

A. Debited to the class of PPE that is being revalued and credited to a equity

B. Credited to retained earnings as an unrealized gain

C. Credited to long-term provisions and added to the PPE

D. Released to the income statement over the life of the PPE

24. An entity operates a chain of hotels and is proposing to stop depreciating the hotel equipment and expense the cost of replacement each year. The entity should -

A. Capitalize groups of assets but not depreciate them

B. Capitalize all assets with a useful life of more than one year and depreciate them

C. Not capitalize groups of assets and expense the replacement cost

D. Not capitalize groups of assets and expense them

25. An entity has a policy of revaluing its PPE. An asset cost $15m on 1 January 2008, has a useful life of 15 years and is depreciated on a straight-line basis to a zero residual value. The value of the asset at 31 December 2008 was $14.5m. At 31 December 2009, the market value of the asset was $12.5m. The accounting entry at 31 December 2009 would be

A. Depreciation $1.04m to income statement, fall in value of $0.5m charged to revaluation reserve and $0.46m to the income statement

B. Depreciation $1m to income statement, fall in value of $0.96m to the income statement

C. Depreciation $1.04m to income statement, fall in value of $0.96m charged to revaluation reserve

D. Depreciation $1m to income statement, fall in value of $0.5m charged to revaluation reserve and $0.5m to the income statement

26. Multipart has purchased a budget airline and is discussing the way in which it should depreciate the aircraft as aircraft have a lifespan of 10 years, engines have a lifespan of seven years and tires have a lifespan of 18 months. The aircraft should be depreciated on a straight-line basis over

A. 1.5 years useful life

B. Seven years useful life of the engine, 1.5 years useful life of the tires, and 10 years useful life applied to the balance

C. Seven years useful life

D. 10 years composite useful life

27. Under IAS 40, Investment Property, which additional disclosure must be made when an entity chooses the cost model as its accounting policy for investment property?

A. The present value of the property

B. The value in use of the property

C. The net realizable value of the property

D. The fair value of the property

28. An entity has a factory which due to a decline in activity is no longer required and is now being held for sale. Is this an investment property?

A. Yes B. No

29. Farming land is purchased for its investment potential. Planning permission has not been obtained for building constructions of any kind. Is this an investment property?

A. Yes B. No

30. Which TWO of the following properties fall under the definition of investment property and therefore within the scope of IAS 40?

A. Property occupied by an employee paying market rent

B. A building owned by an entity and leased out under an operating lease

C. Property being constructed on behalf of 3rd parties

D. Land held for long term appreciation

31. Which TWO of the following disclosures must be made when fair value model is adopted?

A. Net gains or losses from fair value adjustments

B. Useful lives or depreciation rates used

C. The amount of impairment losses recognized

D. Additions resulting from acquisitions through business combinations

32. Which of the following qualifies for classification as an investment property?

A. Property that is currently being developed for future use as investment property

B. Investment property that is currently being developed for future use as owner-occupied property

C. Property that is leased out to another entity under a finance lease

D. Building being rented from another entity and leased out under various operating sub-leases leases

33. IFRS5 requires entities to present and disclose information which enables users to evaluate the effects of discontinued operations. This improves:

A. Comparability B. Verifiability C. Timelines D. Neutrality

34. If a non-current asset is to be abandoned, it should not be classified as held-for-sale because –

A. It is unlikely there will be an active market for the non-current asset

B. It may still be utilized

C. Its carrying amount has been recovered principally through continued use

D. It is unlikely that the non-current asset will be sold within 12 months

35. A non-current asset which has been classified as held-for-sale should...

A. ...be depreciated over its remaining useful life

B. ...not be depreciated

C. ...be tested monthly for impairment

D. ...be valued at depreciated historical cost

36. Which of the following is an objective of IAS 38?

A. To prescribe the accounting treatment for intangible assets that is dealt with specifically in another Standard

B. To specify how to measure the fair value of intangible assets

C. To specify disclosure requirements about intangible assets

D. All of the above

37. Which of the following shall be excluded from the scope of IFRS 16 Leases and shall be accounted in accordance with IAS 38?

A. Motion picture films C. Manuscripts

B. Patents and copyrights D. The entire above E. None of the above

38. If an asset incorporates both intangible and tangible elements, it shall be treated under _____

A. IAS 16 Property, Plant and Equipment

B. IAS 38 Intangible Assets

C. A or B, depending which element is more significant

D. A and B

39. Which of the following does not define an “asset”?

A. A resource that is controlled by an entity as a result of past events

B. A resource which value in use exceeds its historical cost

C. A resource from which future economic benefits are expected to flow to the entity

D. All of the above E. None of the above

40. Which of the following intangibles is/ are prohibited from being recognized as an asset?

A. Home grown goodwill C. Internally generated intangibles

B. Separately acquired intangible D. Goodwill acquired as part of an on-going business

A. B and D B. A and B C. A and C D. C and D

BOOKLET No 3 COST AND MANAGEMENT ACCOUNTING I

Part I. Choose the best answer from the given alternatives and write your choice on the space provided.

1. Spot that cost classification on functional basis
   A. Relevant and irrelevant
   B. Fixed and variable
   C. Future and historical
   D. Manufacturing and non-manufacturing
   E. Inventor able and non-inventor able
2. A cost types positively related to volume of production is known as
   A . fixed cost B. mixed cost C. step cost D. sunk cost E. Variable cost
3. Cost classification on the basis of Accounting Period stated as
   A. Sunk & Opportunity C. Period & Product
   B. Mixed & Step D. Sunk & Discretionary Cost E. Variable & Fixed
4. When volume of production increase fixed cost per unit is

A. decrease B. increase C. remain constant D. no relationship E. None of them

5. Cost which is sacrificed in choosing the one from two alternative is known as
   A. Sunk cost B. opportunity cost C. differential cost D. committed cost E. A & C
6. A group of manufacturing costs referred as prime costs include
   A. Direct material & direct labor C. direct labor and factory overhead
   B. Direct materials and factory overhead D. A & B E. none of the above
7. Which groups of manufacturing costs referred to as conversion costs?
   A. Direct material & direct labor C. Direct labor & factory overhead
   B. Direct material & factory overhead D. All indirect cost E. None of them
8. Which of the following is the correct work flow path in manufacturing industry?
   A. Procurement → Production → Warehousing → Selling
   B. Production → Warehousing → Production → Selling
   C. Warehousing → Production → Selling → Procurement
   D. All of the above E. None of the above
9. Direct costs are
   A. Used for general factory purpose
   B. Easily traceable & visible in terms of amount consumed
   C. When it is incurred debited FOH Control account D. A & B a E. A & C
10. Process Costing System appropriates to
    A. Sugar factory B. Crude oil refinery C. Cement factory D. For all E. For A & B
11. When we develop predetermined overhead rate the base should be best cost driver. The underlined phrase implies that
    A. the base inversely related to consumption of overhead cost
    B. Consumption of overhead cost grater than actual
    C. Consumption of overhead less than actual
    D. A &C
    E. the base positively related to consumption of overhead cost

Given: - Budget Factory Overhead Cost .....Br. 500,000

Budget Factory Overhead base..... 250,000 Units

(Answer Q.12 & 13)

12. Pre determine factory overhead rate is
    A. Br. 2 per unit
    B. Budget overhead cost and base is the data used to calculate
    C. Br. 0.50 per unit
    D. Important to transfer overhead cost to work in process account
    E. A & D
13. Assume 5,000 units are actual and overhead cost applied is
    A. Br. 2,500 C.Br. 10,000
    B. Pre determined FOH rate times actual units D. B & C E. None of the above

Given: - Assume end of the accounting period

- Under or Over Overhead Applied account debit balance ..... Br. 40,000
- The factory dispose the above amount to Cost of Goods Sold account

Based on the above information answer question No. 8 and 9

14. The disposal journal entry reflect the following except
    A. Credited Under or Over applied account
    B. Under or Over applied account balance zero
    C. The new accounting period Under or over applied account credit balance is Br.40,000
    D. Debited cost of goods sold account for Br. 40,000
    E. Decrease under or over applied account for Br. 40,000
15. The above journal entry effect up on current period gross profit for Br. 40,000 is
    A. Increase B. Decrease C. no effect D. Net income increase E. None of them

Given:-the cost of a job consists of

Direct materials charged ..... Br. 80,000

Factory overhead applied..... 60% of direct labor cost

Total cost charged..... Br. 200,000

Answer question 10

16. Then the cost of direct labor and manufacturing overhead amount is
    A. Br.75,000 and Br. 45,000 respectively
    B. Br. 72,000 and Br. 42,000 respectively
    C. Br. 45,000 and Br. 75,000 respectively
    D. Br. 30,000 and Br. 45,000 respectively
    E. None of the above.
    A. Br. 120,000 B. Br. 60,000 C. Br. 140,000 D. Br. 40,000 E. None of them

17. A form used to appeal raw material from the store to the production center is known as:-
   A. Material Requisition C. Purchase Requisition
   B. Purchase Order D. Material Receiving Report E. All of the above

18. The following features characterize process costing except one
   A. Continuous production process
   B. Goods are mainly produced to meet customers' orders
   C. Homogenous product
   D. Production report is done by department
   E. None of the above.

19. When service department overhead cost should be prorated to producing department
   A. It will became as part of manufacturing cost
   B. Factory overhead control account of producing department debited with allocated amount
   C. After posting proration journal entry overhead control account balance of service department became zero.
   D. All of the above
   E. None of the above

20. Which of the following is not true about equivalent units?
   A. Physically the same to completed units
   B. Equally share the period cost
   C. Percentage of completion is required to compute
   D. No contribution to allocate current period cost E. B & C are not correct

21. Beginning WIP cost added to current month cost and divided to Equivalent units. Such type of costing
   A. Method is associated to Average Costing
   B. Transferred out units from beginning WIP and currently started and completed compute at the same average cost.
   C. Transferred out units from beginning WIP and currently started compute at different unit cost
   D. A & B are correct E. B & C are correct

22. FIFO costing method for beginning work in process practice
   A. Beginning work in process cost is only assigned to beginning work in process units.
   B. Beginning WIP cost added to current month cost

C. Transferred out units from beginning WIP and currently started and completed are computed at a different unit cost D. All of the above E. A & C are correct

23. When raw material overstocked this may lead to
   A. the factory may be run out of production
   B. the factory face shortage of finance
   C. raw material carrying cost increase
   D. financing the factory through borrowing and expose for interest payment
   E. All except A

24. Joint products are:-
   A. Emerged form a single process C. Incidental products
   B. Relatively equal sales value D. Having common cost
   E. All except C

25. The major activity of the factory is to produce edible oil an intentionally Fagulo is emerged. Which one of the following more describes the second product?
   A. By-product C. Joint product
   B. Main product D. Spoiled product E. None of the above

26. If the estimated sales value of the by product is treated as a reduction in the cost of the main product the journal entry debited By-Product inventory and credited

A. Cash B. Work in Process C. Account Receivable D. Sales E. None of them

Given: - The following information is given for the Forming Department of Nice Company for the Aug.2013

Assume the company use average cost system for beginning work in process inventory handling and answer question 27- 30

Production data

Beginning Work in process units 200
Units started current month..... 1000
Transferred out to the net department..... 800
Ending work in process..... 400

Stage of completion

	Ending WIP
Labor.....	50%

Labor Cost data

Beginning WIP.....Br. 10,000
Current month..... 40,320

27. Equivalent units of production as per of labor is

A. 800 units B. 920 units C. 1,000 units D. 200 units E.1,200 units

28. The cost per equivalent units is

A. Br. 50.32 B.Br. 50 C. Br. 0.50 D. Br. 10 E.Br.40

29. The labor costs embodied in the goods transferred out amount to

A. Br. 40,000 B. Br. 50,000 C. Br. 10,000 D. Br. 40,256 E. None

30. The labor cost embodied in the ending work in process is

A. Br.1000 B. Br. 10,000 C. 50,000 C. 40,000 D. Br. 10,064 E. None

Please use Forming Department of Nice Company information given above and additional shown below & answer question No.31-34

Additional information
Beginning WIP costing method .....FIFO
Stage of completion for beginning WIP..... 80%

31. Equivalent units of production as per of labor is

A. 840 units B. 920 units C. 1000 units D. 200 units E.800 units

32. The cost per equivalent units is

A. Br. 50 B.Br. 48 C. Br. 0.50 D. Br. 10 E.Br.40

33. The labor costs embodied in the goods transferred out amount to

A. Br. 40,000 B. Br. 1,920 C. Br30, 720 D. Br. 28,800 E. None

34 The labor cost embodied in the ending work in process is

A. Br.1000 B. Br. 10,000 C. 50,000 D. 9,600 D. Br. 32,000

Given:- Data Chemical Company Joint products are named Release & Buff. The following information relating to quantity produced and sales of the product. Common Cost of the period assumes Br. 81,700. Based on the given information answer question 35 & 36

Product	Units in terms of gallons	Sales Per Unit	Total Sales Value
Release	128,000	Br.0.60	Br. 76,800
Buff	62,000	0.80	49,600
Total sales value	190,000 gallons		Br. 126,400

35. If common cost allocation made based on physical units & then manufacturing cost of Release & Buff respectively is
A. Br. 0.43 per gallons C. Br. 26,660 & Br. 55,040
B. Br. 55,040 & Br. 26,660 in total D. A & B E. None of the above

36. If common cost allocation made based on Relative Sales Value & then manufacturing cost of Release & Buff respectively is
A. Br. 49,640.50 & Br. 32,059.50 C. Br. 26,660 & Br. 55,040
B. Br. 55,040 & Br. 26,660 in total D. Br.32, 059.50 & Br. 49,640 E. None of the above

37. Job Order Costing System characterized by the following **except**
A. products are manufactured based on customer specification
B. If no customer order no production
C. Production is going on factory plan & products are homogenous
D. Products are heterogeneous as per quality, quantity & cost
E. B & C

38. Normal Spoilage is
A. that arises under efficient operating conditions
B. it is an inherent result of the particular process
C. uncontrollable in the short runs
D. Management must establish the rate E. All of the above

Given:-The following information related to materials purchases for ABC Company .

	Material A
Annual demand for material.....	4,000 kg. .
Cost to place an order	Br.10
Cost to carry an item.....	Br. 2
Safety Stock	250 Kg
Lead time.....	20 days
Daily usage.....	15 kg

Based on the above given information answer question 39 & 40

39. Purchase order expected when the level of units reach
A. 550 Units B. 250 Units C. 5,000 Units D. 3,750 Units E. None of them

40. Economic order quantity for material " A " is
A. 80,000 Units B. 200 Units C. 4,000 Units D. 40,000 Units E. None of them

Instruction: Choose the best answer from the given alternatives and write the letter of your answer on the separate answer sheet provided to you.

1. What is the main disadvantage of the sole proprietorship as a form of business organization

when compared to the corporate form?

A. Sole proprietorships are subject to double taxation of profits.

B. The cost of formation.

C. Inadequate profit sharing.

D. Owners have unlimited liability.

2. A company has just converted a long-term note receivable into a short-term note receivable. The company's acid-test and current ratios are both greater than 1. This transaction will:

A. Increase the current ratio and decrease the acid-test ratio.

B. Increase the current ratio and increase the acid-test ratio.

C. Decrease the current ratio and increase the acid-test ratio.

D. Decrease the current ratio and decrease the acid-test ratio.

3. ABC Corporation has a current ratio of 3.2. Which of the following transactions will increase ABC's current ratio?

A. The purchase of inventory for cash.

B. The payment of an account payable.

C. The collection of an account receivable.

D. none of the above.

4. The true owners of the corporation are the:

A. holders of debt issues of the firm.

B. board of directors of the firm.

C. preferred stockholders.

D. common stockholders.

5. Which of the following involves significant financial investments in projects to develop

new products, expand production capacity, or remodel current production facilities?

A. Capital budgeting B. Working capital

C. Master budgeting D. Project-cost budgeting

6. Whenever evaluating two capital projects, which one of the following decision rules is accepted?

A. The project with longer payback period.

B. The project with lower accounting rate of return.

C. The project with positive and higher NPV.

D. The project with less than 1 Profitability index.

7. You are investing $1 today in a savings account at your local bank. Which one of the following terms refers to the value of this investment one year from now?

A. Future value C. Present value

B. Principal amounts D. Discounted value

8. Which of the following statements is **correct**?

A. The cash flows for an ordinary annuity all occur at the beginning of the periods.

B. If a series of unequal cash flows occurs at regular intervals, such as once a year, then the series is by definition an annuity.

C. The cash flows for an annuity due must all occur at the ends of the periods.

D. The cash flows for an annuity must all be equal, and they must occur at regular intervals.

9. You plan to analyze the value of a potential investment by calculating the sum of the present values of its expected cash flows. Which of the following would increase the calculated value of the investment?

A. The cash flows are in the form of annuity and lasts for 10 years rather than 5 years.

B. The discount rate decreases.

C. The riskiness of the investment’s cash flows increases.

D. The total amount of cash flows remains the same, but more of the cash flows are received in the later years and less are received in the earlier years.

10. Mr. ‘x’ now has $800. How much would he have after 7 years if he leaves it invested at 9% with annual compounding?

A. $4910.9 B. $622.20 C. $1462.43 D. None

11. Which one of the following will produce the highest present value interest factor?

A. 8 percent interest for five years C. 8 percent interest for eight years

B. 12 percent interest for ten years D. 10 percent interest for ten years

12. The return that shareholders require on their investment in the firm is called the:

A. Coupon payment. C. Cost of equity.

B. Capital gains. D. cost of capital.

13. The costs incurred by the firm when new issues of stocks or bonds are sold are called:

A. Required rates of return. C. Costs of capital.

B. Flotation costs. D. Costs of equity and debt.

14. Which of the following must be adjusted for the firm's tax rate when estimating the weighted average cost of capital WACC?

A. Cost of common equity C. Cost of preferred stock

B. Cost of debt D. All of the above

15. In calculating the cost of capital for an average firm, which of the following statements is **true**?

A. The cost of a firm's bonds is greater than the cost of its common stock.

B. The cost of a firm's preferred stock is greater than the cost of its common stock.

C. The cost of a firm's retained earnings is less than the cost of its bonds.

D. The cost of a firm's common stock is greater than the cost of its bonds.

16. The approach to capital budgeting which divides an accounting measure of income by an accounting measure of investment is

A. Accounting rate of return. C. Internal rate of return.

B. Payback method. D. Net present value.

17. The capital budgeting method which calculates the expected monetary gain or loss from a project by discounting all expected future cash inflows and outflows to the present point in time using the required rate of return is the

A. payback method. C. Accounting rate-of-return method.

B. Benefit cost ratio methods. D. Net present value method.

18. The method that measures the time it will take to recoup, in the form of future cash inflows, the total dollars invested in a project is called

A. Accounting rate-of-return method. C. Payback method.

B. Internal rate-of-return method. D. Net present value method.

19. Which of the following is an appropriate term for the required rate of return?

A. Discount rate B. Hurdle rate C. Cost of capital D. All of the above

20. In capital budgeting, a project is accepted only if the internal rate of return

A. Equals or exceeds the required rate of return.

B. Equals or is less than the required rate of return.

C. Equals or exceeds the net present value.

D. Equals or exceeds the accrual accounting rate of return.

21. The focal point of financial management in a firm is:

A. the number and types of products or services provided by the firm.

B. the minimization of the amount of taxes paid by the firm.

C. the creation of value for shareholders.

D. the dollars profits earned by the firm

22. A_____ would be an example of a principal, while a _____ would be an example of an agent.

A. shareholder; manager B. manager; owner

C. accountant; bondholder D. shareholder; bondholder

23. _____and _____ are the two versions of goals of the financial management of the firm.

A. Profit maximization, Wealth maximization

B. Production maximization, Sales maximization

C. Sales maximization, Profit maximization

D. Value maximization, Wealth maximization

24. Which of the following would **NOT** improve the current ratio?

A. Borrow short term to finance additional fixed assets.

B. Issue long-term debt to buy inventory.

C. Sell common stock to reduce current liabilities.

D. Sell fixed assets to reduce accounts payable.

25. The gross profit margin is unchanged, but the net profit margin declined over the same

period. This could have happened if

A. cost of goods sold increased relative to sales.

B. sales increased relative to expenses.

C. Govt. increased the tax rate.

D. dividends were decreased

26. STAR Industries has a debt-to-equity ratio of 1.5 compared with the industry average

of 1.3. This means that the company

A. will not experience any difficulty with its creditors.

B. has less liquidity than other firms in the industry.

C. will be viewed as having high creditworthiness.

D. has greater than average financial risk when compared to other firms in its industry.

27. ABC Inc. operates as a partnership. Now the partners have decided to convert the business into a corporation. Which of the following statements is CORRECT?

A. The ex-partners will now be exposed to less liability.

B. The company will probably be subject to fewer regulations and required disclosures.

C. The firm's investors will be exposed to less liability, but they will find it more difficult to transfer their ownership.

D The firm will find it more difficult to raise additional capital to support its growth.

28. Profit maximization does not adequately describe the goal of the firm because:

A. profit maximization does not require the consideration of risk.

B. profit maximization ignores the timing of a project's return.

C. maximization of dividend payout ratio is a better description of the goal of the firm.

D. A and B.

29. What does the agency problem refer to?

A. The conflict that exists between the board of directors and the employees of the firm.

B. The problem associated with financial managers and Internal Revenue agents.

C. The conflict that exists between stockbrokers and investors.

D. The problem that results from potential conflicts of interest between the manager of a business and the stockholders.

30. Why do investors prefer receiving cash sooner rather than later, according to finance theory?

A. Incremental profits are greater than accounting profits.

B. Money received earlier can be reinvested and returns can be increased.

C. Tax considerations are important when investing.

D. Diversification leads to increased value.

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

A. Borrow more. B. Shift short-term to long-term debt.

B. Shift long-term to short-term debt. D. Sell common stock.

32. Which of the following statements (in general) is correct?

A. A low receivables turnover is desirable.

B. The lower the total debt-to-equity ratio, the lower the financial risk for a firm.

C. An increase in net profit margin with no change in sales or assets means a poor ROI.

D. The higher the tax rate for a firm, the lower the interest coverage ratio.

33. Which of the following statements is correct?

A. If the NPV of a project is greater than 0, its PI will equal 0.

B. If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0.

C. If the PI of a project is less than 1, its NPV should be less than 0.

D. If the IRR of a project is greater than the discount rate, k, its PI will be less than 1 and its NPV will be greater than 0.

34. To increase a given present value, the discount rate should be adjusted

A. upward. B. downward. C. No change. D. constant

35. Which of the following is not the responsibility of financial management?

A. allocation of funds to current and capital assets

B. obtaining the best mix of financing alternatives

C. preparation of the firm's accounting statements

D. development of an appropriate dividend policy

36. Which of the following statements regarding a 10-year monthly payment amortized mortgage with a nominal interest rate of 12% is CORRECT?

A. The monthly payments will decline over time.

B. A smaller proportion of the last monthly payment will be interest, and a larger proportion will be principal, than for the first monthly payment.

C. The total dollar amount of principal being paid off each month gets smaller as the loan approaches maturity.

D. Exactly 10% of the first monthly payment represents interest.

37. Mr. x is going to receive $10,000 six years from now. Mr. y is going to receive $10,000 nine years from now. Which one of the following statements is correct if both Mr. x and Mr. y apply a 12 percent discount rate to these amounts?

A. The present values of Mr. x and Mr. y money are equal.

B. In future dollars, Mr. y money is worth more than Mr. x ' money.

C. In today's dollars, Mr. x ' money is worth more than Mr. y.

D. Mr. y money is worth more than Mr. x money given the 7 percent discount rate.

38. Walker & Son is issuing a 10-year, $1,000 par value bond that pays 9% interest annually. The bond is expected to sell for $885. What is Walker & Son's after-tax cost of debt if the firm is in the 34% tax bracket? Approximate to the nearest figure

A. 7.11% B. 8.01% C. 9.15% D. 10.35%

39. Which of the following reasons causes bonds to be a less expensive form of capital for a

public firm than the issuance of common stock? Bondholders:

A. bear less risk than common stockholder’s bear.

B. have prior voting rights over common stockholders.

C. receive greater returns than common stockholders.

D. investors pay a lower tax rate on bond interest

40. ABC co. is expected to pay an annual dividend of $0.80 a share next year. The market price of the stock is $22.40 and the growth rate is 5 percent. What is the firm's cost of equity?

A.7.58 percent B.7.91 percent C.8.24 percent D.8.57 percent

UNITY UNIVERSITY
DEPARTMENT OF ACCOUNTING AND FINANCE
ADAMA CAMPUS
MODEL EXAM

Name:_____ID. No: _____Section _____

ANSWER SHEETS.

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31.	32.	33.	34.	35.	36.	37.	38.	39.	40.