Harambee University
Faculty of Business and Economics
Department of Accounting and Finance
Model Exam Ginbot 2017

<u>Instruction:</u> Choose the best answer from the given alternatives and write your answer on the separate answer sheet only.

1. Which of the following is incorrect about taxation?
- **A.** Tax is a compulsory payment to the government.
- **B.** Tax imposes duty of payment on person who is liable to it.
- **C. Taxation has insignificant effect on consumption and employment pattern.**
- **D.** Tax receipts are commonly used for the production of public goods.

2. ABC Shoe store had a balance in the account receivable $468,750 and Net credit Sale during the year amounted to $3,000,000. The Average Collection Period of the receivable in terms of days was:

A. 57 days **B.** 53 days **C.** 365 days **D.** 60 days

3. The subject matter of the public finance concerned with the preparation, control and administration of financial budget is referred to as:
- **A.** Public expenditure
- **B. Financial administration and control**
- **C.** Economic stabilization and growth
- **D.** Public borrowing

4. Capital project funds differ from other governmental funds in that it:
- **A.** Account for all fixed assets acquired by the government.
- **B. Exist for the period of acquisition or construction of major capital facilities**
- **C.** Are used to record monies accumulated to pay long-term liabilities.
- **D.** Are used to account for the proceeds of special revenue sources

5. All of the following statements are true about audit evidence except one?
- **A. Audit evidence obtained directly by the auditor through observation is less reliable than audit evidence obtained from the employee**
- **B.** Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- **C.** Written record is more reliable than oral representation
- **D.** Audit evidence that is generated internally is more reliable when the related controls imposed by the entity are effective.

6. Which of the following is not considered inventory?
- **A.** Material used to make products for resale
- **B.** Finished goods awaiting shipment to customers
- **C. Equipment used to manufacture products for resale**
- **D.** Materials stored in store

7. A company purchases land, machinery and a building for Birr 5,000,000 cash. The building has a market value of Birr1,504,000, machinery of Birr 720,000 and the land for Birr 2,476,000 for a total value of Birr4, 700,000. The cost of building is:

A. Br 2,491,000
C. Br 1,600,000
B. Br 2,650,000
D. Br 2,63,400

8. The cash receipts from a special tax levy to retire and pay the general obligation bonds issued to finance the construction of a new city hall should be recorded in:

A. Enterprise fund
C. Debt service fund
B. Capital project fund
D. Special revenue fund

9. The rule of debit and credit respectively is:

A. Left and Right hand side
C. Decrease and Increase side .
B. Right and Left hand side
D. Increase and Decrease side

10. Assume that you have sold an asset on account. The accounts affected by this transaction are:

A. Accounts receivable and sales
C. Equipment and building
B. Accounts payable and cash
D. Capital and drawing

11. On December 31, Tokuma Company has the following information about cash at book.

- Cash balance per book birr $12,500
- N/R collected by bank birr 3,000
- Bank service charge birr 2,000
- Outstanding checks birr 1,500
- Deposit in transit birr 8,000

Based on the above information, what is the amount of the adjusted cash balance per book statement at December 31?

A. Birr 19,000
B. Birr 10,200
C. Birr 11,500
D. Birr 13,500

12. Which financial decision involves determining how much money the company should borrow?

A. Investment decision
C. Working capital management
B. Dividend decision
D. Financing decision

13. The financial goal of a corporation is to:

A. Maximize the value of the firm for the shareholders
B. Maximize sales
C. Maximize managers' benefits
D. Maximize profits

14. XYZ Company has machinery that cost $15,000 when purchased on January 1, 2015 and depreciated at a rate of $1,500 per year. The machinery is sold on December 31, 2018 for $7,000. What is related gain or loss on disposal?

A. Gain $7,000 **B.** Loss $1,500 **C. Loss $2,000** **D.** Loss $3,500

15. Entity A buys and sells perishable goods. Which of the following inventory method is appropriate to sell these types of inventory?

A. Specific identification **C. FIFO.**

B. Weighted Average. **D.** Any of these.

16. What is the difference between depreciation and impairment?

A. Depreciation is the decrease in value of PPE, while impairment is the increase in value

B. Depreciation is the recognition of a decrease in value, while impairment is the allocation of cost over time

C. Depreciation is the increase in value of PPE, while impairment is the decrease in value

D. Depreciation is the allocation of cost over time, while impairment is the recognition of a decrease in value

17. A set of ratios that measure how effectively a firm manages its debt is

A. Leverage ratio **C.** Inventory turnover ratio

B. Profitability ratio **D.** Activity ratio

18. In reconciling the reciprocal accounts between a home office and a branch, adjustments must be made to bring these accounts into balance before eliminations can be made. Differences in these balances can be due to all of the following, except:

A. Sales to customers by the home office at the end of the accounting period which were not recorded by the branch.

B. Shipments in transit at the end of the period which are recorded by the home office but not by the branch.

C. Remittances from the branch mailed on the last day of an accounting period which are not recorded by the home office.

D. Collections of home office receivables by the branch close to the end of a period which is not recorded by the home office.

19. What is the main focus of a not-for-profit organization?

A. Maximizing profit

B. Operating for the benefit of society

C. Serving individual proprietors

D. Operating for a group of partners or shareholders

20. A machine with a cost of Birr 130,000 has an estimated residual value of Birr10,000 and an estimated life of 4 years or 16,000 hours. Using the units-of production method, what is the amount of deprecation for the second year, during which the machine was used 4,000 hours?

A. Birr26,000 **B.** Birr 24,000 **C. Birr 30,000** **D.** Birr 32,500

21. The cost of assets consumed or services used is known as:

A. A revenue **B. An expense** **C.** A liability **D.** An asset

22. All are a temporary account except,

A. Income summary **C. Inventory**

B. Expense **D.** Revenue

23. The risk that the auditors' substantive procedures fails to identify a misstatement that exists in an account balance or class of transactions referred to as:

A. Audit risk **B. Detection risk** **C.** Control risk **D.** Inherent risk

24. If Applied overhead cost less than Actual overhead cost, the difference between applied overhead and actual overhead is called:

A. Under Applied overhead **C.** Applied overhead

B. Over Applied overhead **D.** Actual Overhead

25. Which of the following is a debt security?

A. Preferred stock

B. Corporate bond

C. Mutual fund

D. Common stock

26. How would you use the asset turnover ratio to evaluate a company's efficiency?

A. By dividing its revenue by its total assets

B. By dividing its net income by its total assets

C. By dividing its expenses by its total assets

D. By dividing its liabilities by its total assets

27. Cost of acquiring fixed assets excludes all of the following, except;

A. Deliberate destruction of the property **C. Insurance while in transit**

B. Mistakes in installation **D.** Damage during unpacking and installing

28. Agency problem refers to?

A. The problem associated with financial managers and internal revenue agent

B. The conflict that exist between stockholders and investors

C. The problem that the result from potential conflict of interest between the manager of business and stockholders.

D. The conflict that exist between the board of directors and the employees of them

29. Accounting does not record non-financial transactions because of the concept of:

A. Entity
B. Cost
C. Accrual
D. Measurement

30. Assume that XYZ Company performs an impairment test for its equipment. The carrying amount of the equipment is Br.1,000,000, its fair value less cost to sell is Br.940,000, and its value in use is Br.960,000. How much is the impairment loss on equipment?

A. Br.20,000
B. Br.60,000
C. Br.40,000
D. No impairment loss

31. Optimal capital structure is the mix of:

A. Debt ,equity and preferred stock that maximize the company's earnings per share
B. Debt, equity and preferred stock that minimize the company's cost of debt.
C. Debt, equity and preferred stock that minimize the company's cost equity
D. Debt, equity and preferred stock that maximize the company's stock price.

32. Which of the following items would not appear in the financing section of the statement of cash flows?

A. Purchase of plant assets.
B. The issuance of the company's own stock.
C. Repaying principal on borrowing.
D. The payment of dividends.

33. Company purchases a one year insurance policy on September 1, for Birr 12,000. The adjusting entry on December 31 is:

A. Debit, Prepaid Insurance Birr 12,000 & Credit, Cash Birr 12,000.
B. Debit, Prepaid Expense Birr 6,000 & Credit, Prepaid Insurance 4,000.
C. Debit, Insurance Expense Birr 4,000 & Credit, Prepaid Insurance 4,000.
D. Debit, Insurance Expense Birr 6,000 &Credit, Prepaid Insurance Birr 4,000.

34. One characteristic of products that are mass-produced in a continuous production process is that

A. The products are identical or very similar in nature.
B. They are grouped in batches.
C. They are produced at the time an order is received.
D. Their costs are accumulated on job cost sheets.

35. Assume that the auditor permits or directs another to sign a document containing materially false and misleading information. According this statement which audit rule is violated?

A. Confidential client information rule
B. Independence rule
C. Integrity and objectivity rule
D. Accounting principle rule

36. Assume that Mr. X is hired by XYZ Company at a basic salary of 12,000 ETB and Position allowance of 4,000 ETB per month. During the Month of January Mr. X works an overtime of 10 hours on weekly rest. Consider that all earnings by Mr. X is subject to the nations employment income tax; How much net salary will be earned by Mr. X? (Assume 192 hours per month)

A. 13,250 **B.** 12,020.24 **C. 11,872.50** **D.** 16,000

37. Expenses that depend on production is:

A. Fixed costs **B. Variable costs** **C.** Step costs **D.** Mixed costs

38. If a potential investors use accounting information to estimate the occurrence of future event and make decision on investing or not investing when financial information has:

A. Completeness
B. Predictive value
C. Materiality
D. Confirmatory value

39. X Company has issued a bond with Birr 1000 par value carrying 7% stated rate and the market interest rate is 9%. X's bond is trading at?

A. Par **B.** Premium **C. Discount** **D.** Profit

40. Under fair value method, a reclassification of un realizable gain or loss to adjustment is reported in the:

A. Income statement as another revenue or expense.
B. Stockholders' equity section of the balance sheet.
C. Statement of comprehensive income as other comprehensive income.
D. Statement of stockholders' equity.

41. Which of the following best describes the primarily role and responsibilities of external independent auditor?

A. Express opinion on truth and fairness of company's financial statements
B. Give management report about client's control problem and deficiencies
C. Produce a company's periodic financial statement
D. Provide business consulting advise to client

42. Assume that the actual direct material purchased is 10,000 units at $150 each. The standard units allowed were 9,000 units at standard price of $160 each. What is direct material price variance?

A. $90,000F
B. $100,000F
C. $90,000U
D. $100,000U

43. Assume that ABC Company is currently producing a part for its main product. The related cost per unit consists direct material $25; direct labor $20; Factory overhead $15 and non-incremental administrative cost $10. Another company contacted ABC Company with an offer to sell 500 parts of the product for total cost of $28,000. What is relevant cost of producing parts by ABC Company?

A. $30,000 **B.** $28,000 **C.** $35,000 **D.** $22,500

44. Which can be a possible reason to prepare unqualified opinion with explanatory paragraph?

A. Scope restrictions imposed by the client
B. Significant departure from accounting standards
C. Significant uncertainty
D. Inconsistency in the application of accounting principles

45. What is the purpose of a voucher in the acquisition and payment cycle?

A. To request goods and services from a vendor.
B. To record cash disbursements
C. To provide a formal means of recording and controlling acquisitions.
D. To document the receipt of goods from a vendor.

46. Under AIS 12, income taxes, deferred tax assets and liabilities are measured at the tax rates that:

A. Are expected to apply when the asset is realizes or the liability is settled
B. At the rates that prevail at the reporting date
C. At the end of the reporting period
D. Applied at the beginning of the reporting period

47. What is a key difference between governmental and business organizations in terms of financial resources?

A. Governmental organizations are funded by investors, while businesses are funded by tax payers.
B. Governmental organizations are funded by tax payers, while businesses are funded by investors and profit
C. Both are funded by donations and grants
D. Both are funded by user charges.

48. Which of the following account is not eliminated while preparing combined financial statements?

A. Any intercompany profits or losses.
B. Any receivables and payables between the home office and the branch
C. Payment branch operating expense by home office

D. Reciprocal ledger accounts

49. Assume that NH Company supplied raw materials for ABC Manufacturing Company for Birr 500,000 VAT exclusive. ABC Company produced finished goods and sold to its agent XYZ Company for Birr 649,750 with VAT inclusive. How much of VAT will ABC Company pay to tax authority?

A. Birr 97,462.5 **C.** Birr 75,000
B. Birr 84,750 **D. Birr 9,750**

50. Which of the following is wrong about Biological Asset?

A. Sheep is a Bearer Animals.
B. Coffee Plant, Goat, Cow are Bearer Plants.
C. Vine and Apple are Bearer Biological Asset
D. Wheat and maize are Consumable Biological Asset.

51. XYZ Company provides the following information regarding its first year operations. Sales revenue $450,000; direct labor $40,000; marketing expense $15,000; factory overhead $20,000 and direct material used $80,000. What is the Product cost of the XYZ Company?

A. $615,000 **B.** $130,000 **C. $140,000** **D.** $465,000

52. Which of the following is NOT an example of investment property?

A. A warehouse used to store inventory for a company
B. A building leased to a third party for rental income
C. Land held for long-term capital appreciation
D. A property under development for resale in the near future

53. In in year 1 a company used FIFO, year 2 specific identification and in year 3 moving average cost for inventory cost of inventory valuation. Which of the following assumptions, constraints or principles would be violated?

A. Matching **B.** Comparabilit y **C.** Time period **D. Consistency**

54. In a process costing system, manufacturing overhead is assigned to work in process by

A. Department based on actual overhead costs incurred
B. Department based on predetermined overhead rates
C. Job based on actual overhead costs incurred
D. Job based on predetermined overhead rates

55. Under IFRS 3 Business Combinations, a gain on bargain purchase arises when the acquirer’s interest in the net fair value of the acquiree’s identifiable assets and liabilities is:

A. Less than the consideration transferred.
B. Greater than the consideration transferred.
C. More than the book values of the identifiable assets acquired

D. Less than the carrying amount of the net assets acquired.

56. A method of arranging business combination with Survivor Company is

A. Statutory consolidation
B. Acquisition of assets
C. Acquisition of common stock
D. **Statutory merger**

57. A non-controlling interest in a subsidiary is also known as a:

A. Majority interest
B. **Minority interest**
C. Controlling interest
D. Parent interest

58. Which of the following is the comparative analysis performed in the asset valuation approach focuses on similarities and differences among properties and transactions that affect value?

A. **Market approach**
B. Cost approach
C. Income approach
D. None

59. On January 1, 2022, ABC Company acquired all of XYZ Corporation's voting shares for $2,000,000 cash. On December 31, 2023, XYZ owed ABC $40,000 for services provided during the year. When consolidated financial statements are prepared for 2023, which entry is needed to eliminate intercompany receivables and payables in the consolidation work paper?

A. **Accounts Payable 40,000**
Accounts Receivable 40,000

B. Accounts Receivable 40,000
Accounts Payable 40,000

C. Retained Earnings 40,000
Accounts Receivable 40,000

D. Eliminating entry is not required

60. Which one of the statement is not true about central bank?

A. A Central is the bank that regulates the money supply, and controls the interest rates in a country
B. A Central is the bank in any country to which has been entrusted the duty of regulating the volume of currency in one country.
C. A Central is a bank which responsible for formulating the monitory policy of an economy
D. **Central bank has no a monopoly on creating the currency of the nations which is usually that nations legal tender**

61. Imagine that the borrowers are better informed than lenders regarding the risks and possible profits of an investment project. The information gap is known as _____, and it leads to the _____ problems.

A. Moral hazard; adverse selection
B. Asymmetric information; risk sharing
C. **Asymmetric information; Adverse selection**

D. Adverse selection; risk sharing

62. Which of the following is a key factor to determine if an investor has control over an investee?

A. The investor owns less than 20% of the voting shares

B. The investor has the power to direct the relevant activities of the investee

C. The investor is not exposed to variable returns from the investee

D. The investor's primary goal is not profit maximization

63. Cost Accounting is not:

A. Accumulates and Ascertain costs for goods sold and inventories

B. Provides the cost details for each cost object & product,

C. Shows profit or loss of the organization

D. Used by internal management

64. Taxable temporary differences are expected to lead to the payment of:

A. less tax in the future and gives rise to a deferred tax asset

B. more tax in the future and gives rise to a deferred tax asset

C. more tax in the future and gives rise to a deferred tax liability

D. less tax in the future and gives rise to a deferred tax liability

65. The primary currency of the foreign entity's operating environment is known as the:

A. Translation currency **C.** Reporting currency

B. Functional currency **D.** Temporal currency

66. Which one of the following type of derivatives gives buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date?

A. Futures contract **B. Put option** **C.** Call option **D.** Swaps

67. What is the payback period in capital budgeting?

A. The amount of time it takes for a project to break even

B. The amount of time it takes for a project to generate a positive net present value

C. The amount of time it takes for a project to recover its initial investment

D. The amount of time it takes for a project to reach its maximum profitability

68. ABC Company has a cash balance of $15,000 on January 1. The company must maintain a minimum cash balance of $8,000. During January, cash receipts of $50,000 are planned. Cash disbursements during the month are expected to total $60,000. Assuming the company borrows the actual cash shortage, how much should the company borrow?

A. $5,000 **B. $3,000** **C.** $8,000 **D.** $7,000

69. Cost incurred for market research in studying the market for introducing a new product is an example of:

A. Opportunity cost
C. Committed cost
B. Sunk cost
D. Relevant cost

70. Which of the following is not a component of working capital?

A. Accounts receivable
C. Inventory
B. Accounts payable
D. Fixed assets

71. The government budget types that designed to be made as out flow of resources for general government services and Administration is:

A. Both recurrent and capital expenditure budget
B. Revenue budget
C. Capital Expenditure budget
D. Recurrent expenditure budget

72. Fees charged by automotive maintenance to provide service for repairs and maintenance of city owned vehicles is accounted as:

A. Internal service fund
C. Special assessment fund
B. Special revenue fund
D. Enterprise fund

73. Which of the following is not the most important factors in audit planning?

A. Audit results identified
B. Time with in which the audit has to be completed
C. Sequence of audit procedures to be undertaken
D. Audit objectives in connection with particular audit

74. Which of the following systems requires that cost of goods sold be updated each time a sale is made?

A. Periodic **B. Perpetual** **C.** Accrual system **D.** Cash system

75. In finance, diversification refers to:

A. Investing all of your money in a single security
B. Investing in securities that are all in the same industry
C. Investing in a variety of securities to reduce risk
D. Investing in securities that are all from the same geographic region

76. Which of the following is a debt security?

A. Common stock
C. Preferred stock
B. Corporate bond
D. None

77. Which of the following is incorrect about auditing?

A. Is a scientific and systematic examination of various types of evidences
B. It does not certify that the financial statements are correct or not.
C. It gives absolute assurance that the financial statements are free from material misstatements.
D. None

78. If someone working for a company knows that a bad piece of news is about to be released, and sells his shares of the stock in order to guard against loss, then this is called:

A. Front running
B. Pump and dump
C. Wash trading
D. Insider trading

79. IFRS permits the following methods of assigning costs to inventories except:

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

80. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their:

A. Acquisition-date fair values
B. Acquisition-date historical cost
C. Reporting-date net book value
D. Reporting-date present value

81. What is the primary purpose of vouching when auditing sales transactions?

A. To test for omitted transactions
B. To test for nonexistent transactions
C. To ensure accurate billing amounts
D. To verify proper account classifications

82. What is the primary purpose of audit sampling?

A. To examine all available information.
B. To provide a reasonable basis for the auditor to draw conclusions about the population
C. To eliminate all risk of error
D. To make auditing more complex.

83. Which of the following is not indirect tax?

A. Excise tax
B. Turn Over Tax
C. Value Add Tax
D. Business Income Tax

84. The foreign exchange rate for the immediate delivery of currencies exchanged is called:

A. Forward rate
B. Historical rate
C. Swap rate
D. Spot rate

85. What is the main objective of IPSAS?

A. To maximize profits for public sector entities
B. To improve the quality of financial reporting by public sector entities
C. To create a uniform accounting system for all organizations
D. To simplify accounting processes for businesses

86. The main purpose of an internal service fund is to:

A. Provide services to the general public on a user charge basis.

B. Provide services to other departments or agencies within the government on a cost-reimbursement basis

C. Account for assets held by the government in a trustee capacity.

D. Manage a government's general revenue.

87. All of the following statements are true about types of audit report/ audit opinion except one?

A. A disclaimer opinion is expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion

B. A qualified opinion states that, except for the effects of the matters to which the qualification relates, the financial statements present fairly, in all material respects

C. An adverse opinion states that the financial statements do not present fairly in conformity with IFRS

D. Modified opinion is expressed when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with IFRS

88. A purchase of equipment for Birr 18,000 also involved freight charges of Birr 500 and installation costs of Birr 2,500. The estimated salvage value and useful life are Birr 2,000 and 4 years, respectively. Annual straight-line depreciation expense will be:

A. Birr4,750 **B.** Birr 4,500 **C.** Birr 4,125 **D.** Birr 4,625

89. If the Double-declining depreciations rate of a plant asset is 50%, then its estimated life will be:

A. 50 years. **B.** 10 years **C.** 5 years **D. 4 years**

90. Assume that ABC Company issues $20,000 in bonds dated on January 1, 2023, due in 4 years with 9% interest payable annually on January 1. The market rate is also 9%. What is the proceed from sale of this bond?

A. $18,200 **B. $20,000** **C.** $21,800 **D.** $1,800

91. In which of the following, the burden of the tax can be shifted to another person?

A. Employment Income tax

B. Business income Tax

C. Rental Income tax

D. Turn Over Tax

92. Due professional care implies that:

A. A member should have adequate skill

B. A member should be independent

C. Auditor should exercise responsibilities

D. None

93. How do companies record unearned revenue received in advance?

A. Debit earned revenue and credit unearned revenue
B. Debit unearned revenue and credit cash
C. Debit cash and credit unearned revenue
D. None of the above

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

A. Bank service charges
B. Outstanding checks.
C. Deposit in transit.
D. Bank error.

95. On January 1, 2023, ABC Company has 1,000 units of product A on hand. During the year, the company plans to sell 4,000 units of product A, and plans to have 2,000 units on hand at year end. How many units of product A must be produced during the year?

A. 4,000 units
B. 5,000 units
C. 3,000 units
D. 7,000 units

96. The risk of loss when the bank considers that the obligor is unlikely to pay its credit obligations in full or the obligor is more than 90 days past due on any material credit obligation is known as:

A. Credit Default Risk
B. Systematic credit risk
C. Concentration risk
D. Counterparty risk

97. Which one of the following statement is not true about financial system?

A. It comprises of set of subsystems of financial institutions, financial markets, financial instruments, financial services and financial regulations.
B. Is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities
C. Comprising different types of private-sector financial institutions which are heavily regulated by the government.
D. The financial system is the most insignificant and worthless for economic transformation.

98. If target net income is $17,500, what will be a target operating income? Assume a 30% tax rate.

A. $17,500 **B.** $5,250 **C.** $5,800 **D. $25,000**

99. Goodwill is the excess of the purchase price of an acquired company over the:

A. Fair value of the net assets acquired
B. Sum of the fair values of the assets acquired.
C. Book value of the acquired company.

D. Liabilities.

100. ABC'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 ABC's Accessory Shop for the year was:

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