SAMARA UNIVERISTY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNITNG AND FINANCE

Model Exam Questions for Graduate Students

May, 2023

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amara, Afar, Ethiopia

CHOOSE THE BEST ANSWER FORM GIVEN ALTERNATIVES

1. _____ shows the overall financial performance of the organization.
   A) Financial statement
   B) Balance sheet
   C) Income statement
   D) Statement of cash flows
   The correct answer is A)
2. Which one of the following is correct statement
   A) Capital is increase by expense and decrease by drawing
   B) Cash balance is increase by cash receipt and decrease by expense
   C) Both revenue and Investment increase owner's equity
   D) Revenue increase capital while investment decrease it
   The correct answer is C)
3. _____is the process of taking information from book of original entry to journal
   A) Posting
   B) Recording
   C) Journalizing
   D) Posting
   The correct answer is C)
4. _____ is the source document that tells the business how much revenue to record.
   A) Purchase invoice
   B) Sales invoice
   C) Deposit ticket
   D) Book of record
   The correct answer is B)

5. One way to detect errors of inequality between Debit and Credit is by preparing a _____

   A) Ledger

   B) Trial balance

   C) Journal

   D) Transaction

   The correct answer is B)

6. _____is the document that tells the business how much and when to pay the vendor.

   A) Sales invoice

   B) Purchase invoice

   C) Book of report

   D) Book of order

   E) The correct answer is B)

7. Assume that on August 31, the petty cash custodian request check number 3 for $90 which one is correct?

   A) Debiting list of expense and crediting cash in bank by $90.

   B) Debiting cash in bank and crediting expense by $90.

   C) Debiting cash in bank and crediting petty cash fund by $90.

   D) Debiting list of expense and crediting petty cash fund by $90.

   The correct answer is D)

8. Awash construction makes a note receivable from sunshine construction on October 2, 2008 of 60 days $2500 payable at Dashen bank with interest at 7%. When will be the due date of the note?

   A) October 2

   B) December 1

   C) December 3

   D) December 31

   The correct answer is B)

9. Based on question #8 what will be the maturity value?

A) $2529.17

B) $5229.17

C) $7529.17

D) $2929.17

The correct answer is A)

10. All are Items recorded by the bank but not yet recorded by the depositors, Except;

A) Bank collection

B) NSF

C) Service charge

D) Outstanding check

The correct answer is D)

11. The inventory costing method that is based on the assumption that costs should be charged against revenue in the order in which they were incurred is:

A) Gross profit method

B) LIFO method

C) Average cost method

D) FIFO method

The correct answer is D)

12. At the beginning of Year 1, the company’s inventory level was stated correctly. At the end of Year 1, inventory was overstated by $2,000. Reported net income during year 1 was $3,000. What should be the correct amount of net income in Year 1? Ignore income taxes.

A) $1,000

B) $5,000

C) $4,500

D) $1,500

The correct answer is A)

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

A) Understated, understated.

B) Understated overstated.

C) Overstated, overstated.

D) Overstated, understated.

The correct answer is D)

14. Which one of the following is an example of accelerated depreciation method?

A) Straight line method.

B) Uniform method

C) Units of production method

D) Double declining method

The correct answer is D)

15. Under what depreciation method(s) is the useful life of the asset is expressed in terms of productive capacity asset, like Hours, Miles, and Number of units… etc.

A) Double declining-balance method

B) Units-of-production method

C) Straight-line method

D) Sum of the years digits method

The correct answer is B)

Assume the following information for question number 16 & 17.

Quality Company purchased plastic laminating equipment on July 1, 2008, for $15,600. The equipment was expected to have a useful life of three years, or 20,000 operating hours, and a residual value of $600. The equipment was used for 3,000 hours during 2008.

16. What is the amount of depreciation expense for the years ended December 31, 2008 under the straight-line method?

A) $3,000

B) $2,500

C) $6,400

D) $2,250

The correct answer is B)

17. What is the amount of depreciation expense for the years ended December 31, 2008 under the units-of-production method?

A) $2,250

B) $6,400

C) $5,000

D) $3,000

The correct answer is A)

18. Most Preferred Stocks have the Following Distinctive Features except:

A) Participating dividend right

B) Preferred as to dividends

C) Cumulative Dividend Right

D) Common share

The correct answer is D)

19. The application (articles of incorporation) will not contains:

A) The address of the corporation’s principal office

B) The name, purpose and duration of the proposed corporation

C) Amounts, kinds and number of shares of capital stock to be authorized

D) The personal resource of shareholders

The correct answer is D)

20. If two business men form partnership business their investments are?

A) Recorded in the name of the business

B) Recorded in the name of each partner

C) Recorded in the name of one partner

D) All assets are recorded in the credit side

The correct answer is B)

21. Partnership form of business is characterized by unlimited liability. Which statement is not True?

A) Each partner is individually liable to creditors for debts incurred by the partnership.

B) If a partnership becomes insolvent or fail to pay its liability, the partners must contribute sufficient personal assets to settle the debts of the partnership.

C) Business partners (both individually and as a group) are liable for all legal and financial obligations of the partnership

D) The debt will be levied if partnership is insolvent to pay the liability

The correct answer is D)

22. From the following alternatives are advantages of corporate form of organization except:

A) Greater amount of capital can be raised

B) Continuity of existence

C) Professional management

D) Government regulation exists-corporation

The correct answer is D)

23. For what reason a corporation reacquires (purchase) its own stock?

A) To hold the share for inflation period

B) To reduce the number of shareholders

C) To support the market price of the stock by decreasing the Supply of stock available to the public.

D) To control the market in monopoly

The correct answer is C)

❖ Delta Corporation begun its operation on January 3, 2019, and purchased $340,000 of merchandise during the year. If inventory at December 31, 1989 is $59,700; the cost of merchandise sold determined (computed) as follows:

Assume, during 2020 Delta Corporation purchased additional merchandise of $521,980, received credit memorandum of purchased returns and allowances of $9,100, in addition ABC take purchases discount of $2,525, and pays transportation costs of $17,400. The purchases returns and allowances and discounts are deducted from the total purchases to yield the net purchases, and the transportation costs are added to the net purchases to yield the cost of merchandise purchased. The following is cost of merchandise purchased for 1990.

24. What is cost of merchandise sold for the period 2019?

A) 280,300

B) 527,755

C) 510,755

D) 340,000

The correct answer is A)

25. Based on question # 24 what is cost of merchandise purchased at period ended 2020?

A) 510,755

B) 527,755

C) 340,000

280,300

The correct answer is B)

26. In accounting system design_____ is affected by management's philosophy & operating style, organizational structure of the enterprise, personnel policies and practices.

A) Control environment

B) Control procedures

C) Accounting system

D) Accounting Implementation

The correct answer is A)

27. _____Is an integral part of the internal control structure of an enterprise.

A) Accounting Analysis

B) Accounting system

C) Data recording

D) Accounting cycle

The correct answer is B)

28. In payroll _____ is the difference between the gross earning of an employee and the total of the deductions.

A) Basic salary

B) Deduction

C) Net pay

D) Bonus

The correct answer is C)

29. Which one can includes all the others

A) Allowance

B) Basic salary

C) Taxable income

D) Gross earning

The correct answer is D)

30. Which one is true when merchandise inventory at the end of the period is overstated?

A) Understate gross profit

B) Overstate net income

C) Understate total asset

D) Understate owners' equity

The correct answer is B)

31. Which one of the following statement is not true about fair value measurement?

A) It is an orderly transaction,

B) It is a distressed sale,

C) It is a market based measurement,

D) It is determined by principal market

The correct answer is B)

32. Which one of the following assets can be both PPE and investment property at the time?

A) Land and equipment

B) Building and machinery

C) Furniture and office equipment

D) Land and building

The correct answer is B)

33. A general purpose financial report which is for primary users is prepared based on:-

A) Relevance and faithful representation

B) Timelines and understandability

C) Predictive value and confirmatory value

D) Completeness and accuracy

The correct answer is A)

34. ..... Establishes the concepts that underlie financial reporting.

A) IFRS

B) Fundamental qualities

C) Conceptual framework

D) IASB

The correct answer is C)

35. Based on purpose plant assets can be classified as:-

A) PPE,non-current assets held for sale and investment property

B) Fixed ,intangible and natural assets

C) Current and noncurrent assets

D) Identifiable and unidentifiable assets

The correct answer is A)

36. A company keeps its activity separate from its owners and other business unit. This assumption is:-

A) Going Concern

B) Monetary Unit

C) Periodicity

D) Economic Entity

The correct answer is D)

37. A fund maintained to facilitate a cash collection from customers is called:

A) Petty cash fund

B) Change fund

C) Maintain bank account

D) Imp rust fund

The correct answer is B)

❖ Assume that ABC Company has paid a combined purchase price of $1000, 000 on Jan 1, 2022, for the purchase of equipment and building. The equipment’s market (sales) value is $300,000 and the building’s market (sales) value is $900,000. Based on this information do question #8 and 9.

38. Calculate the cost of equipment.

A) 250,000

B) 500,000

C) 750,000

D) 1000,000

The correct answer is A)

39. What is the cost of building?

A) 250,000

B) 500,000

C) 750,000

D) 1000,000

The correct answer is C)

40. Except one all of the following are the main characteristics of intangible assets.

A) They lack physical existence

B) They are identifiable

C) They are not monetary assets.

D) They are monetary assets

The correct answer is D)

41. Trademarks or trade names, internet domain names, and non-competition agreements are examples of:

A) Marketing-related intangible assets.

B) Customer-related intangible assets.

C) Artistic-related intangible assets.

D) Contract-related intangible asset

The correct answer is A)

42. All are correct about factoring of receivables during without recourse (sale without guarantee) basis except.

A) The factor assumes risk of collection issues

B) Title of receivables has been transferred from transferor to factor.

C) The fee is higher

D) The factor is responsible for preexisting sales return and allowance

The correct answer is D)

43. If the investor have significance control over the investee and uses equity method, which one is true about this type of investment?

A) Net income and net loss increases investment account

B) Net loss and net income decreases investment account

C) Dividend decreases investment account

D) Dividend increase investment account

The correct answer is C)

44. The amount by which the carrying amount of an asset exceeds its recoverable service amount.

A) Impairment

B) Impairment loss

C) Depreciation

D) Recoverable amount

The correct answer is B)

45. Companies do not adjust opening balance to reflect the change in principle. This approach of recording and reporting accounting changes is….

A) Report change in the past

B) Report change retrospectively

C) Report change currently

D) Report change prospectively

The correct answer is D)

46. Among the following one is not true about advantages of accounting for leasing.

A) Leases may contain less restrictive covenants than other type of lending arrangements.

B) Lease reduce risk of obsolescence to the lessor

C) Lease payments are often fixed

D) Lease reduce risk of obsolescence to the lessee

The correct answer is B)

47. Changing the method of accounting for subsidiaries and investment is……

A) Change in reporting entity

B) Change in accounting principle

C) Change in accounting entity

D) Change in accounting estimate

The correct answer is A)

48. In determining the present value of the lease payment, one is not important factor to be considered.

A) Minimum lease payment

B) Executory cost

C) Discount rate

D) Minimum rental payment

The correct answer is D)

49. Assume on may 1,2014 ABC company acquires 12,000 shares (40% ownership) of XYZ company common stock at $50 per share plus 12,000 brokerage fee. Record purchase for investor.

A) Investment in stock is debited by 600,000 and cash credited by600, 000.

B) Investment in stock is debited by 612, 000 and cash credited by 612,000.

C) Cash debited by 612,000 and investment in stock is credited by 612,000

D) Cash is debited by 480,00 and investment in stock is credited by 480,000

The correct answer is B)

50. Based on the above question #14 assume on Dec. 31 2014, the investee reported net income of 400,000. Compute and record as per the investor record.

A) Investment in XYZ stock debited by 772,000 and income of XYZ is credited by 772,000

B) Income of XYZ is debited by772,000 and investment in XYZ sock is credited by 772,000

C) Investment in XYZ stock debited by 160,000 and income of XYZ is credited by 160,000

D) Investment in XYZ stock is debited by 400,000 and income of XYZ is credited by 400,000

The correct answer is C)

❖ Nokia Company trades its used machine for a new model at Apple Company. The exchange has commercial substance. The used machine has a book value of $80,000 (original cost $120,000) and a fair value of $60,000. The new model lists for $160,000. Apple gives Nokia a trade-in allowance of $90,000 for the used machine.

51. Based on the above information what is the cost of new model?

A) 130,000

B) 140,000

C) 60,000

D) 90,000

The correct answer is A)

52. What is the amount of gain or loss for Nokia Company?

A) 30,000 gain

B) 20,000 loss

C) 20,000 gain

D) 30,000 loss

The correct answer is B)

53. Which one of the following liabilities has uncertain timing and amount?

A) Litigation

B) Account payable

C) Notes payable

D) Dividend payable

The correct answer is A)

54. When a specific asset is not recognized as the asset of a given company or organization?

A) if the asset have future economic benefit

B) if the asset is controlled asset

C) if the asset have no future economic benefit

D) if the asset does not have court case

The correct answer is C)

55. When revenue as a contract with customers is recognized?

A) When it is earned

B) When its performance obligation is satisfied

C) When it is received

D) When it is deferred

The correct answer is B)

56. For agricultural asset inventory which one is the appropriate valuation method?

A) Lower of cost or lower of market method

B) Lower of cost or net realizable value method

C) Gross method

D) Retail method

The correct answer is B)

57. Which of the following is correct about tax base?

A) Total income (that can be taxed by a taxing authority and is thus used to calculate tax liabilities owed by the individual or the corporation.

B) The amount of income subject to tax after deduction of all expenses and other deductible items allowed under Income Tax Proclamation.

C) The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.

D) The amount the entity expects to pay (recover) using substantively enacted(endorse) tax rates

The correct answer is A)

58. An entity shall recognize the goods or services received or acquired in a share-based payment transaction when

A) Obtains the goods or as the services are received.

B) Consumption of goods or services received

C) Issuance of share for settlement

D) Payments of acquisition

The correct answer is A)

59. A tax carryback can be defined as :

A) is the amount by which tax credits available for utilization exceed statutory limitations

B) carrybacks an excess of tax deductions over gross income in a year

C) The amount by which tax credits available for utilization exceed statutory limitations.

D) an excess of tax deductions over gross income in a year

The correct answer is A)

60. When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognized as:

A) Liability

B) Expense

C) Deferred revenue

D) Pre payments

The correct answer is B)

61. _____is calculated by finding the difference between the company's taxable income and its account earnings before taxes, then multiplying that by its expected tax rate.

A) Deferred tax asset

B) Deferred tax liability

C) Taxable temporary differences

D) deductible temporary difference

The correct answer is B)

62. A valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities is:

A) Market Approach:

B) Cost Approach:

C) Income Approach

D) Discounted Cash Flow Method

The correct answer is A)

63. Which of the following is not an inputs for the Discounted Cash Flow (DCF) method:

A) Cash flows;

B) Discount rate

C) Terminal value

D) Income level

The correct answer is D)

64. An entity shall recognize a biological asset or agricultural produce under following conditions except

A) the entity controls the asset as a result of past events;

B) The cost or fair value of the asset cannot be measured reliably.

C) it is probable that future economic benefit its associated with the asset will flow to the entity;

D) The fair value or cost of the asset can be measured reliably.

The correct answer is B)

65. Which of the following is true regarding the statement of cash flows under U.S. GAAP?

A) The statement of cash flows has two major sections—operating and non-operating.

B) The statement of cash flows has two major sections—financing and investing.

C) The statement of cash flows has three major sections—operating, investing, and financing

D) Statement of cash flows has three major sections—operating, non-operating, and financing.

The correct answer is C)

66. For purposes of the statement of cash flows, under U.S. GAAP interest paid is treated as:

A. An operating activity in all cases.

B. An investing or operating activity, depending on use of the borrowed funds.

C. Either a financing or an investing activity.

D. .either an operating or financing activity, but treated consistently from period to period.

The correct answer is B)

67. If an entity measures biological assets at their cost less any accumulated depreciation or impairment losses at the end of the period, the entity should Disclose:

A) The cost method used;

B) The useful lives or the depreciation rates used

C) The fair value amounts

D) The types and nature of biological asset

B)

68. A gain or loss arising on initial recognition of agricultural produce shall be included

A) Profit or loss Statements

B) Statement of financial position

C) On general purpose financial statements

D) Statements of owners capital

The correct answer is A)

69. Which of the following information doesn’t require in presentation and disclosure According to IAS 41

A) The aggregate gain or loss on initial recognition of biological assets

B) Description of each group of biological assets

C) Distinguishing between consumable and bearer biological assets

D) Fair value consumable biological assets and bearer biological assets.

The correct answer is D)

70. For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity using:

A) At fair value

B) At carrying value

C) At fair value less cost to sell

D) At its initial cot

The correct answer is A)

71. The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods is :

A) Current tax

B) Income taxes payable

C) Income taxes Expense

D) Deferred Tax

The correct answer is A)

72. Which is not the common Asset valuation methods under income approach:

A) Discounted Cash Flow (DCF) Method;

B) Relief from Royalty (RFR) Method

C) Multi-Period Excess Earnings Method (MEEM);

D) Comparable Transaction Multiple Method.

The correct answer is D)

73. Which of the following is not a tests for identifying operating segments for which separate disclosure is required:

A) A revenue test

B) A profit or loss test

C) An asset test

D) An operating Expense test

The correct answer is D)

74. An operating segment is a component of an enterprise if:

A) It engages in business activities from which it earns revenues and incur expenses

B) The chief operating decision maker not reviews its operating results regularly.

C) There is no performance and make resource allocation decisions.

D) There is not discrete financial information for users

The correct answer is A)

75. When the financial statements of a foreign subsidiary one year after acquisition are consolidated with the parent company, Retained Earnings is

A) Translated at the current exchange rate.

B) Re-measured at the current exchange rate.

C) Re-measured at the historical exchange rate.

D) Translated at the current exchange rate

The correct answer is D)

❖ The following information is relevant for questions #76, 77 and 78:

Abyssinia Trading bills merchandise shipped to its branches at a branch retail price (Br. 20 per unit). During the current year, the Home Office shipped 10,000 units of inventory to its Dessie Branch. The year-end separate adjusted trial balances of Dessie Branch shows an ending inventory balance of Br. 10,000, representing 500 units. The Home Office's adjusted Trial Balance shows ending inventory of Br. 50,000 and the Home Office cost of merchandise shipped to the branch was Br. 120,000.

76. The amount of ending merchandise inventory to be reported in the combined balance sheet of the home office and the branch should be

A) 60,000

B) 56,000

C) 54,000

D) 70,000

The correct answer is B)

77. The amount of realized gross profit of the home office that resulted from sales made by Dessie Branch is

A) 76,000

B) 110,000

C) 120,000

D) 80,000

The correct answer is A)

78. The year-end balance of the unrealized profit on merchandise shipment account will be

A) 6,000

B) 76,000

C) 4,000

D) 80,000

The correct answer is C)

79. A branch journal entry debiting Home Office and crediting Cash may be prepared for which type of transactions?

A) The branch’s receipts of cash from the home office

B) The allocation by the home office to the branch of expenses incurred by the home office

C) The branch’s acquisition for cash of plant asset to be carried in the home office accounting records

D) The home office transmittal of cash to the branch’s

The correct answer is C)

80. A business combination in which a new corporation is created and two or more existing corporations are combined into the newly created corporation is called a

A) Merger.

B) Consolidation.

C) Purchase transaction.

D) Pooling-of-interests.

The correct answer is B)

81. ABC Company paid $100,000 in fees to its accountants and lawyers in acquiring another company. ABC will treat the $100,000 as

A) an expense for the current year.

B) a prior period adjustment to retained earnings.

C) additional cost to investment of Florence on the consolidated balance sheet.

D) a reduction in paid-in capital.

The correct answer is C)

82. What portion of the balances of subsidiary stockholders' equity accounts are not eliminated in preparing the consolidated balance sheet?

A) Common stock

B) Additional paid-in capital

C) Retained Earnings

D) Plant Asset

The correct answer is D)

83. Which of the following will be debited to the Investment account when the equity method is used?

A) Investee net losses.

B) Investee net profits.

C) Investee declaration of dividends.

D) Depreciation of excess purchase cost attributable to investee equipment.

The correct answer is B)

84. When merchandise is billed to a branch at a price in excess of home office cost,

A) The cost of goods sold reported by the branch is overstated

B) The net income reported by the branch is overstated

C) The ending inventories reported by the branch are understated

D) The cost of goods sold reported by the branch is understated

85. In the preparation of consolidated financial statements, which of the following intercompany transactions must be eliminated as part of the preparation of the consolidation working papers?

A) All revenues, expenses, gains, deductions, receivables, and payables.

B) All revenues, expenses, gains, and deductions but not receivables and payables.

C) Receivables and payables but not revenues, expenses, gains, and deductions.

D) only sales revenue and cost of goods sold.

The correct answer is A)

86. Which of the following does not represent a primary motivation for business combinations?

A) Combinations as a vehicle for achieving rapid growth and competitiveness.

B) Cost savings through elimination of duplicate facilities and staff.

C) Quick entry for new and existing products into markets.

D) Because larger firms being less likely to fail.

The correct answer is D)

87. On July 1, 2019, Langano Corporation paid Br 340,000 for all of DY Company's outstanding common stock. On that date, the costs and fair values of DY's recorded assets and liabilities were as follows:

	Cost	Fair Value
Cash and Receivables	$50,000	$50,000
Inventory	120,000	125,000
Buildings and Equipment (net)	200,000	240,000
Liabilities	(100,000)	(100,000)
Net assets	$270,000	$315,000

What amount should be allocated to goodwill in the consolidated balance sheet, prepared after this business combination?

A) Br 0

B) Br 25,000

C) Br 70,000

D) Br 45,000

The correct answer is B)

88. The rate of exchange for a currency with immediate delivery and selling, or buying of the currency normally occurring within two business days is :

A) Forward rate

B) Exchange rate

C) Spot rate

D) Domestic rate

The correct answer is C)

89. On January 1, ABC Company paid Br1.6 million for 50,000 shares of XYZ's common Stock, which represents a 40% investment. XYZ distributed a dividend of Br 2 per share during the year and reported net income of Br560, 000. What is the balance of the Investment in XYZ account in ABC's financial records at the end of year?

A) Br1, 724,000.

B) Br1, 784,000.

C) Br1, 924,000

D) Br1, 884,000

The correct answer is A)

90. Which of the following is not of the advantages of privatization?

A) Greater efficiency and productivity of enterprises.

B) Increased competition in the economy.

C) Possibility of failure.

D) Capital market development.

The correct answer is C)

91. The proportionate Consolidation method of accounting is appropriate for:

A) Joint ventures only.

B) Joint ventures and Joint operation

C) Joint operation Only

D) Corporate joint ventures

The correct answer is C)

92. In comparing financial and management accounting which one of the following more accurately describes management accounting information?

A) Historical, precise, useful

B) Required ,estimated, precise

C) Budgeted , informative , adaptable

D) Comparable , verifiable , monetary

The correct answer is C)

93. In computing cost of goods sold, which of the following is the manufacturer’s equivalent to the merchandiser’s purchases?

A) Total manufacturing costs to account for

B) Direct materials used

C) Total manufacturing costs incurred during the period

D) Cost of goods manufactured

The correct answer is D)

94. XYZ Company manufactures desks. The beginning balance of raw material is $ 4,500; raw materials purchase of $ 29,600 was made during the month. At month end, $ 7,700 of raw material was on hand and the company incurred $ 12,000 for conversion. Raw material used during the period is

A) $ 26,400

B) $ 34,100

C) $ 37,300

D) $ 29,600

The correct answer is A)

95. The material movement pricing method adopted when prices are stable or when the materials are covered by price control orders.

A) Highest in first out method

B) Specified Price

C) First in first out method

D) Average method

The correct answer is B)

96. ABC Company starts production on January 1, 2023 and the company estimated to produce 4,000 units of product for the month ended January 31. The estimated direct labor cost per unit for the period per unit is $ 4 and its estimated manufacturing overhead per unit is $ 20 Calculate predetermined overhead rate for the product?

A) $25/DLH

B) $ 20/DLH

C) $ 5/DLH

D) $ 16/DLH

The correct answer is C)

97. In manufacturing companies which uses job order costing method the treatment of under applied manufacturing overhead is

A) Added to cost of goods sold

B) Deducted from cost of goods manufactured

C) Deducted from cost of goods sold

D) Added to cost of goods manufactured

The correct answer is A)

98. All of the following types of entities uses a process costing system except?

A) Chemicals industry

B) pharmaceuticals industry

C) Paper manufacturing industry

D) Textile industry

The correct answer is D)

99. The joint cost allocation method that assigns joint production costs based on the proportionate share of eventual revenues less further processing costs and recommended to use is

A) Net realizable value method.

B) Constant gross margin percentage method

C) Physical unit's method

D) Sales-value-at-split-off method

The correct answer is A)

100. When materials are sent to manufacturing plant:

A) Debited to account payable and credited to cash

B) Debited to account receivable and credited to material

C) Debited to work in process and credited to material

D) Credited to material and debited to finished good

The correct answer is C)

101. A company's beginning work in process inventory consists of 10,000 units that are 20% complete with respect to direct labor costs. A total of 40,000 units are completed this period. There are 15,000 units in goods in process, one-third complete for direct labor, at period-end. The equivalent units of production (EUP) with respect to direct labor at period-end, assuming the weighted average method, are

A) 45,000 EUP

B) 40,000 EUP

C) 5,000 EUP

D) 37,000EUP

The correct answer is A)

102. If management wants the most accurate product cost, which of the following costing methods should be used?

A) Volume-based costing using departmental overhead rates

B) Volume-based costing using a plant wide overhead rate

C) Normal costing using a plant wide overhead rate

D) Activity-based costing

The correct answer is D)

103. ABC Company produces two products at the split of point by using joint cost of $ 44,000. During the period the management of ABC company decides to make further process and produces 6000 units of product X and 4000 units of product Y by incurring separable cost of 20,000 and 30,000 respectively. The selling price for product X is $ 25 and for product Y is $ 30. The joint cost allocated for product X using net realizable value method is ….

A) $ 28,000

B) $ 26,000

C) $ 32,000

D) $ 30,000

The correct answer is B)

104. Which is the difference between the actual results and the flexible-budget amount based on the level of output actually achieved in the budget period?

A. flexible budget variance

B. Static Budget Variance

C. Fixed Budget Variance

D. Sales Volume Variance

The correct answer is A)

105. Which one of the following is arises solely from the differences between the budgeted output level used to develop the static budget and the actual output level used to develop the flexible budget.

A. The sales-volume variances
B. Static Budget Variance
C. Flexible Budget Variance
D. Overhead Variances

The correct answer is A)

106. Why the unfavorable sales-volume variance could be arising?

A. The overall demands of the product is not growing at the rate that was anticipated
B. Competitors are taking away market share from once company.
C. If the Budget sales targets are set with careful analysis of market conditions
D. Quality problems developed that led to customer dissatisfaction.

The correct answer is C)

107. Which of the following is the difference between the actual total quantity of input and the standard total quantity allowed based on output; this difference reflects standard mix and standard prices.

A. The material yield variance
B. The material mix variance
C. Sales margin price variance
D. Planning Variances

The correct answer is A)

108. Which of the following aren't the strengths of the use of Standard costs?

A. In the event managers are insensitive and when they make use of variance reports in the form of a club the morale of the workers may suffer.
B. It helps promote efficiency and economy.

C. Standard costs facilitate accountability and fit naturally in the integrated system of responsible accounting.

D. It enables the simplification of bookkeeping.

The correct answer is A)

109. Which of the following isn't the involvement of Cash Budget?

A. It predicts the effects on the cash position at the given level of operations.

B. It is highly affected by the level of operations summarized in budgeted income statement.

C. Cash budgets are very helpful for cash planning and control.

D. Cash budgets promote idle cash and unexpected cash deficiencies.

The correct answer is D)

110. Why Revenues or Sales Budgets the usual starting point for budgeting?

A. The production level and the inventory level and hence manufacturing costs as well as non-manufacturing costs, generally depend on the forecasted level of sales or revenues.

B. The revenue budget is often the outcome of elaborate information gathering and discussions among sales managers and sales representatives.

C. Many factors influence the Revenue or sales Budget.

D. Because sales would be limited by the amount produced.

The correct answer is A)

111. Which is refers to any management approach that involves setting some kind of targets, regularly measuring variances between the original targets and actual outcomes, and motivating people to reduce those variances.

A. Budgetary control

B. Budgeting

C. Budget

D. Planning

The correct answer is A)

112. Which of the following refers to the problem encountered by an organization when deciding whether a product or service should be purchased from outside sources or manufactured internally?

A. The make or buy decision

B. Sell or process further

C. Keep or Drop Decision

D. Special-Order Decisions

The correct answer is A)

113. Which of the following is a technique that uses the degrees of cost variability to measure the effect of changes in volume on resulting profits?

A. Cost-volume-profit analysis

B. Break-even Point Analysis

C. Margin of safety Analysis

D. Operating leverage Analysis

The correct answer is A)

114. Why Knowledge of the break-even point is useful?

A. To determine customer preference.

B. To determine standard cost for the product.

C. To decides whether to introduce new product lines, change sales prices on established products, or enter new market areas.

D. To verify market opportunities of the companies

The correct answer is C)

115. Which of the following is incorrect about assumption of Cost volume profit analysis?

A. Selling price is constant

B. The fixed element is constant in total over the entire relevant range.

C. In multiproduct companies, the mix of products sold could be varying.

D. The variable element is constant per unit.

The correct answer is C)

116. Tony company has equivalent unit cost of birr 10 for Direct Material and birr 20 for Conversion cost .if there are 2500 units in ending WIP , 100% complete to direct material and 40% for conversion cost. The total cost assigned to the ending WIP

A. Br 45,000
B. Br 55,000
C. Br 30,000
D. Br 40,000

The correct answer is A)

117. Which is the main point on the basis of which private finance separated from public finance:

A) Borrowings

B) Elasticity of Finance

C) Satisfaction of Human Wants

D) Engage in Similar Activities

The correct answer is B)

118. A cannon of public expenditure which suggests that no public spending should be made without the authorization of proper authority is;

A) Canon of Equity

B) Canon of Benefit

C) Canon of sanction

D) Canon of Economy

The correct answer is C)

119. It implies that the possibilities of imposing a tax should be taken into account from different angles, i.e., its reaction upon on the tax payer.

A. Canon of Elasticity
B. Canon of Convenience
C. Canon of Expediency
D. Canon of Equality

The correct answer is C)

120. The Ethiopian tax system is:

A. Progressive
B. Regressive
C. Proportional
D. Regressive

The correct answer is A)

121. Transfers of financial resources between levels of government to support public spending is;

A. Inter-governmental transfer
B. Public debt
C. Public revenue
D. Public expenditure

The correct answer is A)

122. In budgeting process of Ethiopia, the budget evaluation begins at the institutional level by…….

A. External auditor
B. Internal auditor
C. Legislatures
D. Executive organs

The correct answer is B)

123. The types of tax levied on sales of goods and services is

A. Turnover tax
B. VAT
C. Excise tax
D. Custom duty

The correct answer is B)

124. Which of the following is **not** a direct tax category in Ethiopian tax system?

A. Employment income tax
B. Business income tax
C. Rental income tax
D. Property tax

The correct answer is D)

125. Assume Mr. Ali is an employee of Samara University. He received a basic salary of birr 9,500. What could be the net pay for Mr. Ali?

A. 7605
B. 6175
C. 6940
D. 7100

The correct answer is C)

126. Assume that ABC Company purchased raw material for birr 10,000 from XYZ Company. ABC sold to wholesaler for birr 12,000; wholesaler sold to retailer for birr 15,000; retailer sold to final customer for birr 19,000. What is the tax liability paid to the government?

A. 1500
B. 2250
C. 2850
D. 1350

The correct answer is D)

127. It imposes a duty on public officials to be accountable to citizens for raising public monies and how they are spent.

A) Accountability
B) Stewardship
C) Encumbrance
D) Appropriation

The correct answer is A)

128. Account for financial resources segregated to pay principal and/or interest on long-term general liabilities

A. Special revenue funds,
B. Capital projects funds
C. Internal service funds
D. Debt service fund

The correct answer is D)

129. As per IPSAS 12 inventory should be stated at

A. Lower of cost and fair value
B. Lower of cost and net realizable value
C. Lower of cost and nominal value
D. Lower of cost and net selling price

The correct answer is B)

130. A government unit that engages in self-supporting activities by providing goods and service to the public on a user charge basis should be accounted for in what fund category?

A) Governmental fund
B) Any non-expendable fund
C) Proprietary fund
D) Fiduciary fund

The correct answer is C)

131. Which basis of accounting is used for the basic governmental function of state and local government

A. Cash basis of accounting
B. Modified accrual basis of accounting
C. Accrual basis of accounting
D. Regulatory basis of accounting

The correct answer is B)

132. An expense account appears in

A) Special revenue fund
B) A pension trust fund
C) An enterprise fund
D) Debt service fund

The correct answer is C)

133. Which of the following is a governmental fund type, which focuses on current financial resources using the modified accrual basis of accounting?

A) A debt service fund
B) Serial bond
C) A pension trust fund

D) An enterprise fund

The correct answer is A)

134. Which of the following isn't true about General capital assets are:

A) Capitalized in the governmental activities accounts at the government-wide level.

B) Generally, depreciated at the government-wide level

C) Debited to Expenditures in the appropriate governmental fund.

D) Credit to expenditures in the appropriate government fund

The correct answer is D)

135. Capital assets used in governmental activities are referred to as ----------

A) General capital assets

B) A pension trust fund

C) An enterprise fund

D) Debt service fund

The correct answer is A)

136. How to assigning Costs to General Capital Assets?

A) Record donated assets at fair value on date of gift.

B) Asset received from another fund, in which case use only fair value.

C) Asset received from another fund, in which case use only lower of book value.

D) Asset received from another fund, in which case use lower of book value or fair value.

The correct answer is D)

137. the correct order in capital budgeting processes

A) Idea generation-Estimation of cash flow-Evaluation-Implementation - Selection- revision.

B) Idea generation-Estimation of cash flow-Evaluation-Selection-Implementation- revision.

C) Idea generation- Evaluation- Estimation of cash flow - Implementation - Selection-revision.

D) Idea generation- Evaluation - Implementation - Estimation of cash flow- Selection- revision.

The correct answer is B)

138. What is the present value of a perpetuity of Br. 20,000 per year if the appropriate discount rate is 5%?

A) 1,000

B) 400,000

C) 20,000

D) 10,000

The correct answer is B)

139. The followings are consequences of excess earnings for corporation except;

A) Common shares of the firm will become more desirable to investors

B) Demand for common share ownership will increase.

C) The market price of common shares will fall.

D) The resale price for common share increase

The correct answer is C)

Below there is financial data of XYZ company for 20XX Year

Assets:

Cash 10,000
Marketable securities 4,000
Accounts receivable (net) 21,300
Inventories 25,800
Land and buildings 35,000
Plant and equipment 140,500

Accumulated depreciation 67,200
Net fixed assets 108,300
Liabilities and stockholders' equity
Accounts payable 22,000
Notes payable 15,000
Taxes payable 4,300
Mortgage bonds 770,000
Net sales for the period is Br. 169,300

Based on the above information find answer the following question (select the most approximate number)

140. What is the amount of current ratio?

A) 1.48

B) 2.78

C) 1.65

D) 3.17

The correct answer is B)

141. The preferred issue has a Br. 80 par value and pays an annual dividend of Br. 6.40 per share. Similar-risk preferred stocks are currently earning a 9.3% annual rate of return. What is the value of the outstanding preferred stock?

A) Br 68.82

B) Br 68.00

C) Br 60.00

D) Br 6.82

The correct answer is A)

142. An annuity for which the cash flows occur at the end of each period

A) Ordinary annuity

B) Annuity due

C) Deferred annuity

D) Uneven cash flow

The correct answer is C)

143. All of the above Sefa Chartered Accountants has developed and copyrighted an accounting software program. He agreed to sell the

copyright to Steel company for 6 annual payments of Br. 5,000 each. The payments are to begin 5 years from today. If the annual interest rate is 8%, what is the present value of the six payments?

A) 16,989

B) 16,000

C) 10,900

D) 18000

The correct answer is A)

144. Which financial manager decision is deal with the left side of the basic accounting equation?

A) Investment decisions

B) Financing decisions

C) Dividend decisions

D) Saving decisions

The correct answer is A)

145. A Corporation has a Br. 1,000 par value bond with an 8% coupon interest rate outstanding. Interest is paid semiannually and the bond has 12 years remaining to its maturity date. What is the value of the bond if the required return on the bond is 8%?

a. 1000

b. 1001

c. 1500

d. 900

The correct answer is A)

146. _____ are financial markets in which securities traded have maturities of one-year or less.

a. Capital Market

b. Money market

c. Over-the-counter markets

d. Primary Markets

The correct answer is B)

147. Mr. X deposited Br 15,000.00 in Bank on January 1 2000. At 13.5 percent semiannually compounding then How much will Mr. X get on December 31, 2007?

A) 113,769.29

B) 88,314.77

C) 41,310.28

D) 36,396.72

The correct answer is A)

148. _____ The risk to the firm of being unable to cover operating cost is assumed to be unchanged

a. Cost of capital

b. Business risk

c. Financial risk

d. Interest rate risk

The correct answer is B

149. The optimal capital structure has been achieved when the:

A) Debt-equity ratio is equal to one

B) Weight of equity is equal to weight of debt

C) Debt-equity ratio is such that cost of debt exceeds cost of equity

D) debt-equity ratio results in the lowest possible weighted average cost of capital

The correct answer is D)

150. M&M proposition I with no tax supports the argument that:

A) Business risk determines the return on asset

B) The cost of equity rises as leverage rises

C) The debt-equity ratio of the firm is completely irrelevant

D) Homemade leverage is irrelevant

The correct answer is C)

151. Which one of the following states that a firm's cost of equity capital is directly related to the firm's capital structure?

A) Capital asset pricing model

B) M&M Proposition I

C) M&M Proposition II

D) Efficient market hypothesis

The correct answer is C)

152. Which of the following is incorrect about residual dividend approach?

A) It creates reduction in the dollar amount which is paid to investors.

B) Reduces uncertainty for investors and provide them with income.

C) Dividends are paid with any remaining earnings generated by the firm.

D) Company management uses to fund capital expenditures with available earnings before paying dividend.

The correct answer is B)

153. Which of the following is not an assumption of the Modigliani and Miller dividend theory?

A) There are perfect capital markets

B) Investors do not behave rationally

C) There are no floatation and transaction costs

D) No investors are large enough to affect the market price of shares

The correct answer is B)

154. Which type of dividend policy is suitable for small investors and retired persons?

A) Regular dividend policy

B) Irregular dividend policy

C) Stable dividend policy

D) No dividend policy

The correct answer is A)

155. In managing cash and other marketable securities, what should the managers primary concern?

A) Maximization of profit

B) Maximization of liquid assets

C) Acceptable return on investment

D) Liquidity and safety

The correct answer is D)

156. The economic order quantity:

A) Determines the reorder point

B) Determines the safety stock

C) Is the lowest cost amount to order considering all costs

D) Is the highest cost amount to order considering all costs

The correct answer is C)

157. The key initial element in developing pro-forma statement is:

A) A cash budget

B) An income statement

C) A sales forecast

D) A collections schedules

The correct answer is C)

158. Which one of the following statement is correct about percentage of sales method of financial forecasting?

A) It is more detailed than cash budget approach

B) It requires more time than a cash budget approach

C) It assumes that balance sheet accounts maintain a constant relationship to sales

D) It Provides a month to month breakdown of data

The correct answer is C)

159. Firms generally choose to finance temporary assets with short-term debt because:

A) Matching the maturity of asset and liabilities reduce risk

B) Short-term interest rates have traditionally been more stable than long-term interest rates

C) Sales remain constant over the year and financing requirement also constant

D) Long-term assets are financed by short-term debts

The correct answer is A)

160. What is the largest source of short-term credit for small firms?

A) Bank loans

B) Commercial papers

C) Installment loans

D) Trade Credit

The correct answer is D)

161. The primary objective of an audit is to:

A) Detect all instances of fraud

B) Ensure the accuracy of a company's financial statements

C) Evaluate the company's management and internal control structure

D) Provide consulting services to the company

The correct answer is B)

162. Any service that requires a CPA firm to issue a report about the reliability of an assertion that is made by another party is a(n):

A) Accounting and bookkeeping service.

B) Attestation service.

C) Assurance service.

D) Tax service.

The correct answer is B)

163. The audit process typically involves which of the following steps?

A) Planning, performing fieldwork, preparing financial statements

B) Performing fieldwork, issuing an opinion, preparing tax returns

C) Planning, performing fieldwork, reporting findings

D) Reporting findings, preparing financial statements, filing tax returns

The correct answer is C)

164. Absence of reasonable care that can be expected of a person in a set of circumstances.

A) Credit alliance
B) Gross negligence
C) Ordinary negligence
D) Contributory negligence
The correct answer is C)

165. Materiality is:

A) The ability of a company to pay its debts
B) The significance of an item in relation to the financial statements
C) A measure of a company's profitability
D) The amount of cash a company has on hand

The correct answer is B)

166. Which of the following would be an audit risk?

A) The risk of a company being sued b
B) The risk of a company's failure to comply with tax laws
C) The risk that a company will go bankrupt
D) The risk that an auditor will issue an incorrect opinion

The correct answer is D)

167. An auditor is required to plan the audit to:

A) Maximize the amount of audit evidence gathered
B) Demonstrate their independence from management
C) Ensure that the audit is performed as quickly as possible
D) Obtain sufficient appropriate audit evidence

The correct answer is D)

168. An auditor is responsible for:

A) Finding every error or fraud in a company's financial statements
B) Ensuring that a company complies with all laws and regulations
C) Expressing an opinion on the accuracy of a company's financial statements
D) Managing a company's financial resources

The correct answer is C)

169. Which of the following types of documentary evidence should the auditor consider to be the most reliable?

A) A sales invoice issued by the client and supported by a delivery receipt from an outside trucker.
B) Confirmation of an account payable balance mailed by and returned directly to the auditor.
C) A check, issued by the company and bearing the payee’s endorsement, that is included with the bank statements mailed directly to the auditor.
D) An audit schedule prepared by the client’s controller and reviewed by the client’s treasurer.

The correct answer is B)

170. The essence of a financial report audit is to:

A) Examine individual transactions so that the auditor may certify as to their validity.

B) Determine whether the client's financial reports are fairly stated
C) Detect fraud.
D) Assure the consistent application of correct accounting procedures.

The correct answer is B)

171. When the financial statements are fairly stated but the auditor concludes there is substantial doubt whether the client can continue in existence, the auditor should issue a(an)

A) Adverse opinion.
B) Qualified opinion only.
C) Unqualified opinion.
D) Unqualified opinion with explanatory paragraph.

The correct answer is D)

172. The opinion paragraph of a CPA's report states: "In our opinion, except for the effects of not capitalizing certain lease obligations, as discussed in the preceding paragraph, the financial statements present fairly," in all material respects, . . . This paragraph expresses a(an)

A) Unqualified opinion
B) Unqualified opinion with explanatory paragraph
C) Qualified opinion
D) Adverse opinion

The correct answer is C)

173. Which of the following is the risk that audit tests will not uncover existing exceptions in a sample?

A) Sampling risk
B) Non-sampling risk
C) Audit risk
D) Detection risk

The correct answer is D)

174. For which of the following tests would an auditor most likely use attribute sampling?

A) Selecting accounts receivable for confirmation of account balances.
B) Inspecting employee time cards for proper approval by supervisors.

C) Making an independent estimate of the amount of a FIFO inventory.

D) Examining invoices in support of the valuation of fixed asset additions

The correct answer is B)

175. Which of the following best illustrates the concept of sampling risk?

A) The documents related to the chosen sample may not be available to the auditor for inspection.

B) An auditor may fail to recognize errors in the documents from the sample.

C) A randomly chosen sample may not be representative of the population as a whole for the characteristic of interest.

D) An auditor may select audit procedures that are not appropriate to achieve the specific objective

The correct answer is C)

176. An advantage of statistical sampling over non-statistical sampling is that statistical sampling helps an auditor

A) Minimize the failure to detect errors and fraud.

B) Eliminate the risk of non-sampling errors.

C) Design more effective audit procedures.

D) Measure the sufficiency of the audit evidence by quantifying sampling risk

The correct answer is D)

177. A key internal control in the sales and collection cycle is the separation of duties between cash handling and record keeping. The objective most directly associated with this control is to verify that:

A) Minimize the failu Cash receipts recorded in the cash receipts journal are reasonable.

B) Cash receipts are correctly classified.

C) Existing cash receipts are recorded.

D) Recorded cash receipts result from legitimate transactions.

The correct answer is C)

178. The accounting system automatically obtains the unit price based on scans of bar codes for merchandise sold. This control is most relevant to which transaction-related objective for sales?

A) Accuracy

B) Occurrence

C) Completeness

D) Posting and summarization

The correct answer is A)

179. Which audit procedure is most effective in testing credit sales for overstatement?

A) Trace a sample of postings from the sales journal to the sales account in the general ledger.

B) Vouch a sample of recorded sales from the sales journal to shipping documents.

C) Prepare an aging of accounts receivable.

D) Trace a sample of initial sales orders to sales recorded in the sales journal.

The correct answer is B)

180. When evaluating the adequacy of the allowance for uncollectible accounts, an auditor reviews the entity's aging of receivables to support management's balance-related assertion of

A) Existence.

B) Completeness.

C) Valuation and allocation.

D) Rights and obligations.

The correct answer is C)

181. A client erroneously recorded a large purchase twice. Which of the following internal controls would be most likely to detect this error in a timely and efficient manner?

A) Footing the purchases journal.

B) Reconciling vendors' monthly statements with subsidiary payable ledger accounts.

C) Tracing totals from the purchases journal to the ledger accounts.

D) Sending written quarterly confirmations to all vendors.

The correct answer is B)

182. When using confirmations to provide evidence about the completeness assertion for accounts payable, the appropriate population most likely is:

A) Vendors with whom the entity has previously done business.

B) Amounts recorded in the accounts payable subsidiary ledger.

C) Payees of checks drawn in the month after year-end.

D) Invoices filed in the entity's open invoice file.

The correct answer is A)

183. An auditor traced a sample of purchase orders and the related receiving reports to the acquisitions journal and cash disbursements journal. The purpose of this substantive test of transactions most likely was to

A. Identify unusually large purchases that should be investigated further.

B. Verify that cash disbursements were for goods actually received.

C. Determine that purchases were properly recorded.

D. Test whether payments were for goods actually ordered.

The correct answer is C)

184. Which of the following audit procedures is best for identifying unrecorded trade accounts payable?

A) Examining unusual relationships between monthly accounts payable balances and recorded cash payments.

B) Reviewing cash disbursements recorded subsequent to the balance sheet date to determine whether the related payables apply to the prior period.

C) Reconciling vendors' statements to the file of receiving reports to identify items received just prior to the balance sheet date.

D) Investigating payables recorded just prior to and just subsequent to the balance sheet date to determine whether they are supported by receiving reports

The correct answer is B)

185. Which of the following is one of the better auditing techniques to detect kiting?

A) Review composition of authenticated deposit slips.

B) Review subsequent bank statements and cancelled checks received directly from the banks.

C) Prepare year-end bank reconciliations.

D) Prepare a schedule of bank transfers from the client's books

The correct answer is D)

186. The process of facilitating the flow of funds between borrowers and lenders performed by the financial system:

A) Is hindered by the problem of 'double coincidence of wants'.

B) Greatly reduces the probability of inflation.

C) Increases the rate of economic growth of a country.

D) Occurs only through financial intermediaries.

The correct answer is C)

187. Which of the following can be described as involving direct finance?

A) A corporation buys commercial paper issued by another corporation.

B) Corporation takes out loans from a bank.

C) People buy shares in a mutual fund.

D) A corporation buys commercial paper in a secondary market.

The correct answer is A)

188. The market that includes individuals, companies and governments in the buying and selling of long-term debt and equity securities is the:

A) Currency market.

B) Debt market.

C) Capital market.

D) Financial market

The correct answer is C)

189. Among the following, which one is contractual non-depository financial institution?

A) Insurance company

B) Saving and loan institution

C) Commercial bank

D) Credit union

The correct answer is A)

190. Among the following, which one is false about Credit unions?

A) They provide higher interest rate for deposit

B) They are non-profit and non- depository financial institutions

C) They attempt to satisfy the deposit and borrowing interest of their members

D) There earning are tax exempted

The correct answer is B)

191. Which of the following is not typically considered a function of financial intermediaries?

A) Providing a payment mechanism

B) Investing in real assets

C) Accumulating funds from smaller investors

D) Spreading, or pooling risk among individuals

The correct answer is B)

192. The main role of financial intermediaries is to:

A) Borrow funds from surplus units and lend them to borrowers.

B) Provide advice to consumers on their finances.

C) Provide funds for the government to cover budget deficits.

D) Help ensure there are enough funds in circulation in a country.

The correct answer is A)

193. Which provides the mechanism through which holder of temporary cash surplus meet holder of temporary cash deficits

A) Money market

B) Capital market

C) Foreign exchange market

D) Derivative market

The correct answer is A)

194. The liquidity preference theory holds that interest rates are determined by the:

A) “flow” of funds overtime

B) “flow” of bank credit overtime

C) investor preference for short-term securities

D) investor preference for higher-yielding long-term securities

The correct answer is C)

195. The type of market in which securities with less than one year maturity are traded is classified as…

A) money market

B) capital market

C) Global market

D) Stock exchange.

The correct answer is A)

196. According to the expectations hypothesis, an upward sloping yield curve implies that

A) Interest rates are expected to remain stable in the future

B) Interest rates are expected to decline in the future

C) Interest rates are expected to increase in the future.

D) Interest rates are expected to decline first, and then increase.

The correct answer is C)

197. Which of the following is an example of a capital market instrument?

A) Commercial paper.

B) Preferred stock

C) U.S. Treasury bills

D) Banker's acceptances

The correct answer is B)

198. The type of financial markets in which the corporation issues new funds to raise funds is classified as

A) Flow market
B) Secondary market
C) Primary market
D) Money market

The correct answer is C)

199. Which of the following is NOT associated with the purpose of regulating financial institutions?

A) Lowering the cost of funds

B) Providing stability of the money supply

C) Directing flow of funds to priority areas

D) Maintaining the soundness and stability of the financial system
The correct answer is A)

E) Major functions of investment banks include the following except:

F) A. advising and providing underwriting arrangement for clients by issuing financial securities.

G) B. serving as dealers or market makers in capital markets.

H) C. providing advice on risk management and hedging

200. Major functions of investment banks include the following except:

A) Advising and providing underwriting arrangement for clients by issuing financial securities.

B) Attracting deposits and providing investment loans

C) serving as dealers or market makers in capital markets

D) providing advice on risk management and hedging
The correct answer is B)