

1. Which of the following is not a core financial statement?
- A. The Income Statement
 - B. Statement of Cash Flows
 - C. The Trial Balance
 - D. The Balance Sheet

ANSWER: C

2. The statement, which presents the results of operations, to see income and loss?:
- A. Income Statement
 - B. Owner's equity statement
 - C. Balance sheet
 - D. Cash flow statement

ANSWER: A

3. Which of the following account types increase by debits in double-entry accounting?
- A. Assets, Expenses, Losses
 - B. Assets, Revenue, Gains
 - C. Expenses, Liabilities, Losses
 - D. Gains, Expenses, Liabilities

ANSWER: A

4. Which of the following is true?
- A. Accounts receivable are found in the current asset section of a balance sheet.
 - B. Accounts receivable increase by credits.
 - C. Accounts receivable are generated when a customer makes payments.
 - D. Accounts receivable become more valuable over time.

ANSWER: A

5. A company that uses the cash basis of accounting will:
- A. Record revenue when it is collected.
 - B. Record revenue when it is earned.
 - C. Record revenue at the same time as accounts receivable.
 - D. Record bad debt expense on the income statement.

ANSWER: A

6. What are the main sections on a balance sheet?
- A. Assets, liabilities, income
 - B. Assets, liabilities, equity
 - C. Assets, liabilities, expenses
 - D. Assets, gains, revenue

ANSWER: B

7. How are a company's financial statements used?
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- A. For internal analysis, external negotiation and compliance**
- B. For a formality**
- C. For nothing**
- D. For incurring costs**

ANSWER: A

- 8.** Which of the following statements best describe the purpose of accounting for depreciation?
- A.** Depreciation is an attempt to measure the decrease in market value of an asset during a period of time
 - B. Depreciation is the allocation of the cost of plant asset over its useful life**
 - C.** Depreciation is the allocation of the cost of a natural resource over its useful life as it is used up
 - D.** Depreciation is calculated for land

ANSWER: B

- 9.** Expenditures incurred in order to maintain the normal operating efficiency of the asset is
- A.** Capital expenditures
 - B.** Expense expenditures
 - C. Revenue expenditures**
 - D.** Extra ordinary repair

ANSWER: C

- 10.** If a plant asset is retired as it is fully depreciated and no salvage value is received,
- A.** Either a gain or a loss can occur
 - B.** A loss on disposal occurs
 - C.** A gain on disposal occurs
 - D. Neither a gain nor a loss occur**

ANSWER: D

- 11.** The fact that partnership assets are owned jointly by all partners is a demonstration of:
- A.** Mutual agency
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- B. Unlimited liability
- C. Co-ownership of property
- D. Sole proprietorship

ANSWER: C

12. When a partner withdrawal by receiving cash from the partnership, the assets of the partnership will be:
- A. Increased
 - B. Remains Constant
 - C. Decreased
 - D. Asset will not changed

ANSWER: C

13. Abebe and Kebede invested Br. 100,000 equally in a partnership and agree to a division of net income that provides for an allowance of interest at 10% on original investments, yearly salary allowances of Br. 12,000 and Br. 24,000 respectively, with the remainder divided equally. What would be Abebe's share of a net income of Br. 50,000?
- A. Br. 12,000
 - B. Br. 10,000
 - C. Br. 22,000
 - D. Br. 19,000

ANSWER: D

14. Which of the following is not true concerning a partnership?
- A. Partnership pays tax only twice
 - B. A partnership is a voluntary association
 - C. Partnership formed without legal formalities
 - D. Limited liability

ANSWER: A

15. Which one of the following item is not a characteristics of a partnership?
- A. Mutual Agency
 - B. Unlimited life
-

- C. Nontaxable Entity
- D. Voluntary association

ANSWER: B

16. Incorrect about usefulness of income statement
- A. Evaluate past performance.
 - B. Predicting future performance.
 - C. Help assess the risk or uncertainty of achieving future cash flows.
 - D. Income measurement involves judgment.

ANSWER: D

17. The single-step income statement emphasizes
- A. The gross profit figure.
 - B. Total revenues and total expenses.
 - C. Extraordinary items more than it is emphasized in the multiple-step income statement.
 - D. The various components of income from continuing operations.

ANSWER: B

18. Which of the following is not an acceptable way of displaying the components of other comprehensive income under IFRS?
- A. Within the statement of retained earnings.
 - B. Second income statement.
 - C. Combined statement of comprehensive income.
 - D. Hidden information

ANSWER: A

19. Which of the following statements is correct regarding income reporting under IFRS?
- A. IFRS does not permit revaluation of property, plant, and equipment, and intangible assets.
 - B. IFRS provides the same options for reporting comprehensive income as GAAP.
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C. Companies must classify expenses either by nature or function.

D. IFRS provides a definition for all items presented in the income statement.

ANSWER: C

20. Which of the following is not reported in an income statement under IFRS?

A. Discontinued operations

B. Extraordinary items

C. Cost of goods sold.

D. Income tax.

ANSWER: B

21. Gains and losses that bypass net income but affect stockholders' equity are referred to as

A. Comprehensive income.

B. Other comprehensive income.

C. Prior period income

D. Unusual gains and losses

ANSWER: B

22. Borrowed cash included in which of the following statement of cash flow activity?

A. Operating Activity

B. Investing Activity

C. Financing Activity

D. Purchasing Activity

ANSWER: C

23. Which of the following is not a type of current liability?

A. Accounts payable

B. Salaries and wages payable

C. Long-term loans

D. Income tax payable

ANSWER: C

24. What is the definition of accounts payable?
- A. Short-term loans
 - B. Debts that are owed to suppliers for goods or services purchased on credit**
 - C. Salaries and wages that are due to be paid to employees
 - D. Taxes that are due to be paid within the year

ANSWER: B

25. Which of the following is an example of an unearned revenue liability?
- A. Rent paid in advance**
 - B. Income tax payable
 - C. Salaries and wages payable
 - D. Accounts payable

ANSWER: A

26. What are non-current liabilities?
- A. Debts which are due within a year
 - B. Debts which are due after a year**
 - C. Debts which are due after five years
 - D. Debts which are due after ten years

ANSWER: B

27. What is the difference between current and non-current liabilities?
- A. Current liabilities are due after a year while non-current liabilities are due within a year
 - B. Current liabilities are short-term while non-current liabilities are long-term**
 - C. Current liabilities are not recorded on the balance sheet while non-current liabilities are recorded.
 - D. There is no difference between current and non-current liabilities.

ANSWER: B

28. What is the journal entry for the issuance of a bond?
- A. Debit cash, credit bonds payable**
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- B. Debit bonds payable, credit cash
- C. Debit cash, credit interest expense
- D. Debit bonds payable, credit interest payable

ANSWER: A

29. In a business combination, which of the following occurs?
- A. The investee takes control of the investor
 - B. The investee and investor share control of each other
 - C. The investor takes control of the investee
 - D. Neither entity controls the other

ANSWER: C

30. In a process of business combination, the Combinor paid the cost of acquisition \$790,000 for current fair value of the combinee's net assets valuing \$850,000. Which of the following is the prorated value of intangible assets if the Plant assets and Intangible assets are in the ratio of 3:2?
- A. 60,000
 - B. 24,000
 - C. 36,000
 - D. 12,000

ANSWER: B

31. Which of the following types of business combinations typically occurs when management is attempting to monopolize a particular industry?
- A. Horizontal combination
 - B. Vertical combination
 - C. Conglomerate combination
 - D. Market domination can be the goal of any type of combination

ANSWER: A

32. Horizontal business combinations occur when one entity purchases which of the following?
- A. A supplier
 - B. A customer
 - C. A competitor
 - D. Vendor

ANSWER: C

33. In consolidated balance sheet of Parent and subsidiary company which company's paid in capital will be entered?
- A. Parent company's only
 - B. subsidiary company's only
 - C. Both Parent and subsidiary companies
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D. Investee company's

ANSWER: A

34. Which of the following types of business combinations typically occurs when management is attempting to improve the efficiency of operations?

- A.** Horizontal combination
- B. Vertical combination**
- C.** Conglomerate combination
- D.** Improved efficiency can be the goal of any type of combination

ANSWER: B

35. Net assets in Balance sheet of Combinee Company are 350,000. Revaluation increment is 95,000. Purchase consideration paid by the Combinor is 900,000. Which of the following is the value of Goodwill?

- A.** 45,000
- B. 550,000**
- C.** 145,000
- D.** 245,000

ANSWER: B

36. Intercompany receivables and payables are placed on the same line of working paper for consolidated balance sheet and which of the following will be the consolidated amount?

- A.** Only receivable amount of parent
- B.** Only payable amount of subsidiary
- C.** Both receivable and payable amount will be added
- D. Zero**

ANSWER: D

37. Which of the following is a vertical combination?

- A.** A combination where the two entities are unrelated
- B.** A combination where the two entities are competitors in the same industry
- C. A combination where the two entities have a potential buyer/seller relationship**
- D.** Adding together and creating new business

ANSWER: C

38. Company "A" acquires 51% shares in company "B" and 100% shares in Company C". Company C holds 49% shares in company B. In this case, which type of ownership Company A is having in Company C.

- A.** Partially Owned
 - B. Wholly owned**
 - C.** Minority interest
 - D.** Normal
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ANSWER: B

39. A merger between a supplier and a customer is a(n)
- A. Friendly combination
 - B. Horizontal combination
 - C. Unfriendly combination
 - D. vertical combination

ANSWER: D

40. When a new corporation is formed to acquire two or more other corporations and the acquired corporations cease to exist as separate legal entities, the result is a statutory a.
- A. Acquisition.
 - B. Combination
 - C. Consolidation
 - D. Merger

ANSWER: C

41. Which of the following statements would not be a valid or logical reason for entering into a business combination?
- A. To increase market share.
 - B. To avoid becoming a takeover target.
 - C. To reduce risk by acquiring established product lines
 - D. The operating costs of the combined entity would be more than the sum of the separate entities.

ANSWER: D

42. The parent company concept of consolidation represents the view that the primary purpose of consolidated financial statements is:
- A. To provide information relevant to the controlling stockholders.
 - B. To represent the view that the affiliated companies are a separate, identifiable economic entity.
 - C. To emphasis control of the whole by a single management.
 - D. To include only a portion of the subsidiary's assets, liabilities, revenues, expenses, gains, and losses.

ANSWER: A

43. Under the economic unit concept, non-controlling interest in net assets is treated as
- A. a liability
 - B. an asset
 - C. stockholders' equity
 - D. an expense
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ANSWER: C

44. The parent company concept adjusts subsidiary net asset values for the
- A. Differences between cost and fair value
 - B. Differences between cost and book value.**
 - C. Total fair value implied by the price paid by the parent.
 - D. Total cost implied by the price paid by the parent.

ANSWER: B

45. In a process costing system, the flow of costs is:
- A. Raw material, Work in process, cost of goods sold, finished goods.
 - B. Finished goods, raw material, work in process, cost of goods sold.**
 - C. Raw material, finished goods, cost of goods sold, and work in process.
 - D. Raw material, Work in process, finished goods, cost of goods sold.**

ANSWER: D

46. _____ is the term used for materials which are badly damaged in manufacturing operations and they cannot be rectified economically.
- A. Scrap
 - B. Waste
 - C. Spoilage**
 - D. Defectives

ANSWER: C

47. An amount of spoilage that is not natural in a specific production process is classified as:
- A. Normal scrap.
 - B. Normal spoilage.
 - C. Abnormal spoilage.**
 - D. weighted spoilage

ANSWER: C

48. The process of adjusting over applied and the under applied of manufacturing overhead is:
- A. Overhead application
 - B. Disposing**
 - C. Proration
 - D. Write-off

ANSWER: B

49. One of the following statements is not true about process costing:
- A. Homogeneous units pass through a series of similar processes.
 - B. Each unit in each process receives a similar dose of manufacturing costs.
 - C. Manufacturing costs are accumulated by a process for a given period of time.
 - D. There is a single work-in-process account for more than two processes.

ANSWER: D

50. What is the last step in process costing method?
- A. Computing equivalent units
 - B. Assign costs to ending work in process and completed and transferred out units
 - C. Summarize physical units of output
 - D. Compute cost per equivalent unit

ANSWER: B

51. All of the following are the reasons for favorable flexible budget variances in cost except
- A. If the actual input price is less than the budgeted input price
 - B. If the actual quantity of inputs used per output is less than the budgeted one
 - C. If the actual quantity of output is less than the budgeted output
 - D. Input price added on budgeted price

ANSWER: C

52. Which of the following is not relevant cost information to make decisions?
- A. Avoidable costs
 - B. Sunk and Committed costs
 - C. Opportunity cost
 - D. Incremental cost

ANSWER: B

53. _____ is the process of choosing the best course of action from alternatives available.
- A. Decision making
 - B. Necessary Information
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- C. Selection
- D. Grouping

ANSWER: A

54. Which types of information is not important for making sound decision?

- A. Necessary information
- B. Irrelevant information
- C. Relevant information
- D. Input information for decision making

ANSWER: B

55. The equivalent units of 500 units 60% complete to conversion and 100% complete to material are:

- A. 500units to material and 500 units to conversion
- B. 300units to material and 500units to conversion
- C. 500units to material and 300units to conversion
- D. 300units to material and 300units to conversion

ANSWER: B

56. Residual material results from manufacturing products is considered as:

- A. Defectives.
- B. Spoilage.
- C. Rework units.
- D. Scrap

ANSWER: D

57. According to _____ theory, the interaction between money and capital market can determine interest rate?

- A. Classical.
- B. Rational expectations.
- C. Liquidity preference.
- D. Loanable funds.

ANSWER: B

58. Liquidity preferences imply?

- A. Holding cash rather than in the forms of other financial assets.
 - B. Holding other financial assets rather than in the forms of cash.
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- C. Holding fixed assets rather than in the forms of other financial assets.
- D. Testing

ANSWER: A

59. Which one is/are the following linked with day today activities and paying wages?

- A. Transaction motive.
- B. Precautionary motive.
- C. Speculative motive.
- D. Compliance motive

ANSWER: A

60. Which one of the following incorrect about loanable fund theory?

- A. Consumer demand is inelastic with respect to the rate of interest.
- B. Government demand significantly depends on the level of interest rate.
- C. Domestic business demand increases as the rate of interest falls.
- D. Domestic business demand decrease as the rate of interest falls.

ANSWER: B

61. Which one of the following incorrect about factors affecting interest rate?

- A. Marketability
- B. Default risk
- C. Convertibility
- D. Sales practice

ANSWER: B

62. Long and short term fund source instrument traded on _____ and _____ market respectively?

- A. Money and capital
 - B. Capital and commodity
 - C. Capital and money
 - D. Money and commodity
-

ANSWER: C

63. Which one of the following is not true about dividend decision?
- A. Payment of dividend involves legal as well as financial consideration.
 - B. Dividends can be paid when there are losses.**
 - C. Dividend can be paid only when there are profits.
 - D. Stock dividend doesn't affect liquidity position of the company.

ANSWER: B

64. According to Walter, the firm should retain the profits if:
- A. r is greater than k**
 - B. r is equal to k
 - C. r less than k
 - D. k is greater than r

ANSWER: A

65. Which of the following is not an assumption of the Modigliani-Miller (MM) model?
- A. There are perfect capital markets.
 - B. Investors do not behave rationally.**
 - C. There are not flotation and transaction costs.
 - D. No investors are large enough to affect the market price of shares.

ANSWER: B

66. _____ Cash is needed to make purchases of raw materials, pay expenses, taxes, dividends?
- A. Speculative motive
 - B. Compensating motive
 - C. Transaction motive**
 - D. Contingency motive

ANSWER: B

67. _____ Cash holding is in order to be able to take advantage of temporary opportunities like sudden decline in the price of raw material.
- A. Transaction motive
 - B. Speculative motive**
 - C. Compensating motive
 - D. Contingency motive

ANSWER: B

68. Which one of the following statement is false?
- A. The development of financial system and economic growth are related
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- B. It will be easy to invest in countries where a financial system is developed
- C. A financial system eases the possibility of making payment for goods and service
- D. The existence of large number of banks is the only requirement for well of financial system

ANSWER: D

69. Which of the following is not true the regarding classical theory of interest rates?
- A. Interest rates are the premium for inducing the people to save.
 - B. The change of supply of money will direct effect price revel
 - C. The more the demand for saving in the market implies interest rates must rise to make equilibrium.
 - D. Rate of interest is not directly, affected by change of supply of money.

ANSWER: A

70. A dealer has just entered into a derivative position with a customer. The customer is obligated to sell the underlying asset to the dealer if the spot price at expiration is more than K, whereas the dealer has the right to sell the underlying asset to the customer if the spot price at expiration is less than K. Which of the followings describes the derivative trading?
- A. The dealer purchases a K-strike call and a K-strike put
 - B. The dealer sells a K-strike call and purchases a K-strike put
 - C. The dealer purchases a K-strike call and sells a K-strike put
 - D. The dealer enters into a long forward contract

ANSWER: D

71. Which of the following derivative instrument needs more attention on how closely buyers and sellers must match on amount, quality, and delivery dates to enter into contract?
- A. Forward contract
 - B. Option contract
 - C. Future contract
 - D. Put option contract

ANSWER: C

72. Which of the following is not the function of financial market?
- A. Mobilization of savings
 - B. Price fixation
 - C. Provide liquidity to financial assets
 - D. Citizen Extravagance habit building
-

ANSWER: D

73. Classical interest rate theory states that rising interest rates will
- A. Increase the demand for money
 - B. Decrease the demand for money
 - C. Decrease investment expenditures
 - D. Increase the quantity of saving**

ANSWER: D

74. According to _____ theory the rate of interest is determined by the demand for and supply of money.
- A. The Classical Theory of Interest Rate
 - B. The Liquidity Preference Theory of Interest Rate**
 - C. The Loanable Funds Theory of Interest Rate
 - D. The Rational Expectations Theory of interest rate

ANSWER: B

75. The _____ theory argues that the risk-free interest rate is determined the demand and supply credit.
- A. The Classical Theory of Interest Rate
 - B. The Liquidity Preference Theory of Interest Rate
 - C. The Loanable Funds Theory of Interest Rate**
 - D. The Rational Expectations Theory of interest rate

ANSWER: C

76. Which one is/are correct about completeness test on current liabilities?
- A. Assuring proper period concerning on payables.
 - B. Checking whether the provided purchasing, borrowing and payments of obligation are missed or not from the actual numbers of economical exchanges events occurred.**
 - C. Assuring proper classifications of receivables.
 - D. Assessing improper classifications of receivables.

ANSWER: B

77. Which one is/are correct about completeness test on receivable?
- A. Assuring proper period concerning on payables.
 - B. Assuring proper classifications of receivables.
 - C. Checking whether the provided sales and credit of information are missed or not from the actual numbers of economical exchanges occurred.**
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D. Assuring improper period concerning on payables.

ANSWER: C

- 78.** Which one is/are correct about disclosure test on current liabilities?
- A.** Investigation of additional information concerning on inventory.
 - B. Assuring additional information regarding on payables.**
 - C.** Assuring of additional information concerning on receivables.
 - D.** Investigation of additional information concerning on fixed assets.

ANSWER: B

- 79.** Which one is/are correct about validity test on receivable?
- A.** Assuring proper period concerning on payables.
 - B. Checking whether the provided sales and credit related information are actual or not.**
 - C.** Assuring proper classifications of receivables.
 - D.** Assuring improper period concerning on payables.

ANSWER: B

- 80.** Which one is/are correct about disclosure test on receivable?
- A.** Investigation of additional information concerning on inventory.
 - B.** Assuring additional information regarding on payables.
 - C. Assuring of additional information concerning on discounting process.**
 - D.** Investigation of additional information concerning on fixed assets.

ANSWER: C

- 81.** Which one is correct about classification test on receivable?
- A.** Making existence test on fixed assets.
 - B.** Assuring proper classifications regarding on payables.
 - C. Assuring proper classifications of receivables.**
 - D.** Assuring proper period concerning on receivables

ANSWER: C

- 82.** Which one is/are correct about completeness test on inventory?
- A.** Assuring proper period concerning on payables.
 - B.** Checking whether the provided purchasing, production process and sales of inventory are missed or not from the actual numbers of economical exchanges occurred.
 - C.** Assuring proper classifications of receivables.
 - D.** Adding receivable balances

ANSWER: B

- 83.** Which one is correct about disclosure test on inventory?
- A.** Investigation of additional information concerning on inventory valuation methods.
 - B.** Assuring additional information regarding on payables.
 - C.** Assuring of additional information concerning on receivables.
 - D.** Investigation of additional information concerning on fixed assets.

ANSWER: A

- 84.** Which one is/are correct about classification test on inventory?
- A.** Assuring additional information regarding on payables.
 - B.** Assuring proper classifications of inventory.
 - C.** Assuring proper period concerning on receivables.
 - D.** Making existence test on inventor

ANSWER: B

- 85.** Which one is/are correct about validity test on fixed assets?
- A.** Assuring proper period concerning on payables.
 - B.** Checking whether the provided discarding, sales and exchanges of long term assets related evidence are actual or not.
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- C. Assuring proper classifications of receivables.
- D. Adding the balances of current asset

ANSWER: B

86. Which one is correct about classification test on fixed assets?
- A. Assuring proper classifications of long term assets
 - B. Assuring additional information regarding on payables.
 - C. Assuring proper period concerning on receivables.
 - D. Making existence test on long term assets.

ANSWER: A

87. Which one is correct about disclosure test on fixed assets?
- A. Investigation of additional information concerning on inventory.
 - B. Assuring additional information regarding on payables.
 - C. Assuring of additional information concerning on receivables.
 - D. Investigation of additional information concerning on fixed assets.

ANSWER: D

88. A tax that takes a larger percentage from high-income earners than it does from low-income earners is called
- A. proportional tax
 - B. progressive tax
 - C. regressive tax
 - D. suppressive tax

ANSWER: B

89. Which from the following is NOT an indirect type of tax?
- A. Income Tax
 - B. Sales Tax
 - C. Custom Tax
 - D. Federal Excise Duty

ANSWER: A

90. Income tax is levied generally on the
- A. Net income
 - B. Gross income
 - C. Gross income – net income
 - D. Assets

ANSWER: A

91. _____ means the costs of collecting a tax should be considerably less than the revenue it generates
- A. Convenience
 - B. Equity
 - C. Economy
 - D. Flexibility

ANSWER: C

92. This means fairness in the sense that the amount of tax people and firms have to pay, should be based on their ability to pay
- A. Economy
 - B. Equity
 - C. Certainty
 - D. Flexibility

ANSWER: B

93. Which one of the following is not categorized under budgetary accounts?
- A. Estimated revenue
 - B. Expenses
 - C. Estimated Other Financing Uses
 - D. Liability

ANSWER: B

94. An office equipment for birr 800 purchase order had been received the order at an actual cost of birr 500, the journal entry not to record the receipt of the office equipment will included;
- A. Debit to expenditure for birr 500
 - B. Credit to voucher payable for birr 500
 - C. Debit to reserve for encumbrance birr 800
 - D. Credit to cash account birr 500

ANSWER: D

95. Which one of the following governmental fund is not uses an encumbrance account?
- A. General fund
 - B. Capital project fund
 - C. Debt service fund
 - D. Project fund
-

ANSWER: C

- 96.** Recording purchase order or contract signed in the case of general or capital project fund as_____.
- A.** Estimated revenue
 - B.** Appropriations
 - C. Encumbrances**
 - D.** Project

ANSWER: C

- 97.** The accrual basis of accounting is not used in accounting for which of the following fund categories?
- A. Governmental funds**
 - B.** Proprietary funds
 - C.** Fiduciary funds
 - D.** Project fund

ANSWER: A

- 98.** Which of the following fund types focuses on the measurement of economic resources?
- A.** General fund
 - B.** Capital project fund
 - C. Enterprise funds**
 - D.** Expense fund

ANSWER: C

- 99.** The issuance of bonds to provide resources to construct a new irrigation dam should be recorded in a
- capital project fund crediting
- A.** Fund payable
 - B. Bonds payable**
 - C.** Revenue-bond
 - D.** Proceeds from bond issue
-

ANSWER: B

100. The modified accrual basis of accounting is used in accounting for which of the following fund categories?

A. Governmental funds

B. Proprietary funds

C. Fiduciary funds

D. Bond fund

ANSWER: A

