

Course No: ACC 4316 – ACNE 3306
Course Title: Accounting Theory
Date: ---/01/2017
No. of Questions: (7)
Time: 2 hour
Using Calculator (yes)

University of Palestine



Final Exam
1st Semester 2016/2017
Total Grade: 50

Instructor Name: Dr. Khaled Eissa

Student No.: _____

Student Name: _____

College Name: Business Administration

Dep. / Specialist: Accounting

Using Dictionary (No)

أجب عن الأسئلة من (1) إلى (5)
الطلاب المعتذرين عن الإمتحانات النصفية أجب عن الأسئلة من (1) إلى (7)

Question 1: Multiple Choices:

1. **Liquidity ratios measures the**
 - a) Operating success of a company over a period of time
 - b) The ability of a company to survive over a long period of time
 - c) The short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash
 - d) The number of times interest is earned

2. **A statement of cash flows should be issued by a profit-oriented business**
 - a) As an alternative to the statement of income and retained earnings
 - b) Only if the business classifies its assets and liabilities as current and noncurrent
 - c) Only when two-year comparative balance sheets are not issued
 - d) Whenever a balance sheet and a statement of income and retained earnings are issued

3. **A successful discount retail store such as Wal-Mart would probably have**
 - a) A low inventory turnover
 - b) A high inventory turnover
 - c) Zero profit margin
 - d) Low volume

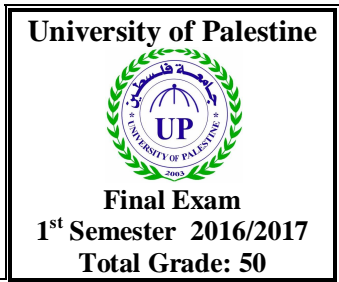
4. **Investments in equity securities are disclosed as current assets on a company's balance sheet if**
 - a) Management intends to sell them within a year and they have a ready market exists.
 - b) The fair market value cannot be determined.
 - c) Management intends to convert them into common stock within one year.
 - d) Management owns less than 50% of the outstanding stock.

5. **The balance sheet discloses**
 - a) Stocks
 - b) Flows
 - c) Both stocks and flows
 - d) Neither stocks nor flows

6. **The firm's ability to convert an asset to cash or to pay a current liability change is the definition of**
 - a) Liquidity
 - b) Solvency
 - c) Financial flexibility
 - d) Working capital

7. **Which of the following is not an economic consequence of financial reporting?**
 - a) Financial information can affect the distribution of wealth among investors. More informed investors, or investors employing security analysts, may be able to increase their wealth at the expense of less informed investors.
 - b) Financial information can affect the level of risk accepted by a firm. Focusing on short-term, less risky projects may have long-term detrimental effects.
 - c) Financial information can affect the rate of capital formation in the economy and result in a reallocation of wealth between consumption and investment within the economy.
 - d) Financial information can affects the allocation of psychic income among investors.

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8. The phrase events and transactions that are distinguished by both their unusual nature and their infrequency of occurrence describes:
- Changes in accounting principles
 - Prior period adjustments
 - Extraordinary items
 - Prior period adjustments
9. The net realizable value of receivables is calculated as the face value of the receivables less adjustments for
- Credit sales
 - Actual uncollected amounts adjusted for purchase discounts.
 - Bad debts already written off.
 - Estimated uncollectible accounts
10. The valuation basis used in conventional financial statements is
- Replacement cost
 - Market value
 - Original cost
 - A mixture of costs and value.

Question 2: Put (√) or (×):

- According to Asset - Liability approach, changes in balance sheet amounts becoming more important in income determination. ()
- According to SFAS 157 Fair Value is the price that would be paid to purchase an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. ()
- According to transaction approach balance sheet is more importance than income statement ()
- Deferrals are assets whose settlement requires the performance of services rather than the payment of money. ()
- Equity is the residual interest in the asset of an entity that remains after deducting its liabilities. ()
- Extra-ordinary items include events and transactions that are both frequent and usual. ()
- Factors important in determining liquidity: length of life, rate of use, method of consumption. ()
- Financial information can affect the distribution of wealth among investors. ()
- Measurement is the assigning of numbers to objects or events according to rules. ()
- Working capital equal to current assets divided by current liabilities. ()

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Question 3:

Summary information from the financial statements of two companies competing in the industry follows:

Data from the year-end balance sheets

	Birdy Co.	Bogey Co.
Assets		
Cash	\$ 91,000	\$ 52,000
Accounts receivable, net	60,200	40,000
Merchandise inventory	50,400	80,500
Plant assets, net	<u>201,170</u>	<u>205,000</u>
Total assets	<u>\$402,770</u>	<u>\$377,500</u>
Liabilities and Equity		
Current liabilities	\$ 50,400	\$ 115,000
Long-term notes payable	64,000	176,000
Common stock, \$2 par value	100,000	50,000
Retained earnings	<u>188,370</u>	<u>36,500</u>
Total liabilities and equity	<u>\$402,770</u>	<u>\$377,500</u>

Data from the current year's income statement:

	Birdy Co.	Bogey Co.
Sales	\$540,030	\$468,000
Cost of goods sold	393,190	303,300
Interest expense	6,400	20,400
Income tax expense	54,031	114,100
Net income	86,409	30,200
Basic earnings per share	1.73	1.21

Beginning-of-year balance sheet data:

	Birdy Co.	Bogey Co.
Accounts receivable, net	\$ 54,700	\$38,000
Merchandise inventory	45,500	88,000
Total assets	181,166	355,870
Common stock, \$2 par value	100,000	40,000
Retained earnings	166,500	30,100

Required

For both companies compute the

- a. Profit margin,
- b. Total asset turnover,
- c. Return on total assets
- d. Return on common stockholders' equity.

Assuming that each company paid cash dividends of \$0.75 per share and each company's stock can be purchased at \$32 per share, compute their

- e. Price-earnings ratios and
- f. Dividend yields.

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Question 4:

Finley Corporation had income from continuing operations before tax of \$18,000 in 2016. During 2016, it disposed of its restaurant division at a pre-tax loss of \$1,500. Prior to disposal, the division operated at a loss of \$2,000 in 2016. Income tax rate is 35%.

Required:

Prepare a partial income statement for Finley beginning with income from continuing operations.

Question 5:

The management of Rusel Inc. is trying to decide whether it can increase its dividend. During the current year, it reported net income of \$1,750,000. It had cash provided by operating activities of \$1,500,000, paid cash dividends of \$150,000, and had capital expenditures of \$600,000.

Required:

Compute the company's free cash flow, and discuss whether an increase in the dividend appears warranted.

هذا القسم خاص بالطلاب المعتذرين عن الإمتحانات النصفية فقط:

Question 6

What is the difference between normative and positive theory?

Question 7

According to SFAC No. 5, what should a full set of financial statements for a period show?

<<< Good Luck >>>