

Course No: ACNE 4222  
Course Title: Contemporary Accounting Issues  
Date: /03/ 2019  
No. of Questions: 3  
Time: 1 hour  
Using Calculator :(Yes)

(A)  
University of Palestine  
  
First Midterm Exam  
Second Semester  
2018/2019  
Total Grade: 15

Instructor Name:Mr.Tareq Y. Abu Al-Ajeen  
Student No.: \_\_\_\_\_  
Student Name: \_\_\_\_\_  
College Name: \_\_\_\_\_  
Dep. / Specialist: \_\_\_\_\_  
Using Dictionary (No)

• Answer all Questions

**First Question: Multiple Choice**      **No. of Branches (6)**      **( / 3) (6-9 Minutes)**

**1) Big bath accounting is generally used to drop earnings when**

- a. There is a change in management team
  - b. When operations are restructured
  - c. When the economy is poor
  - d. All of the above
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**2) A normative theory**

- a. Is completely divorced from reality
  - b. Describes, explains or predicts activities
  - c. Is based on what should be the case given a certain objective
  - d. Only focuses on normal activities
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**3) According to agency theory the following are examples of bonding costs:**

- a. Auditing the financial reports
  - b. Putting in place operating rules
  - c. Linking remuneration to performance
  - d. All of the above
- 

**4) Legitimacy theory argues that**

- a. Organizations can only continue to exist if they demonstrate values consistent with society at large.
  - b. Organizations should focus on wealth maximization for their owners
  - c. The business of business is business
  - d. Consumers are only interested in minimizing costs to themselves.
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**5) Earnings management**

- a. Is illegal
- b. Is considered to always be harmful to shareholders
- c. Has a range of meanings
- d. None of the above

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**6) Which of the following would be considered fraudulent accounting?**

- a. Recognizing revenue when services are prepaid but only partially performed
- b. Capitalizing advertising costs
- c. Liberal credit terms and estimation of provision for doubtful debts
- d. Restating useful life and residual value of non-current assets upwards

**Second Question: Fill in the Blanks. No. of Branches (9) ( /4.5) (12-15 Minutes)**

- 1- ..... costs are incurred by the principal, and relate to measuring, observing and controlling the agent's behavior.
- 2- The two versions of stakeholder theory are: ..... and.....
- 3- There are different decisions made by accounting practitioners. These are: ..... , ..... and .....
- 4- The three criteria considered important in assessing earnings quality are: ..... , ..... and .....
- 5- .....moderates year-to-year fluctuations in income by shifting earnings from peak years to less successful periods.
- 6- What is earnings quality: .....



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7- .....specifies the distribution of rights and responsibilities among the different participants in the organization - such as the board, managers, shareholders and other stakeholders - and lays down the rules and procedures for decision-making.

8- Information Asymmetry vs Information .....

9- Volatility vs .....

**Third Question** **No. of Branches (5)** ( /7.5) (20-24 Minutes)


**1) How can corporate disclosure policy be used to maintain or regain organisational legitimacy? (Three Ways)**

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**2) Differentiate a normative theory from a positive theory. Provide an example of each.**

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3) Is earnings management always bad? Explain your answer.

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4) “One of the most commonly used methods to determine earnings management was developed by DeAngelo”. How he could measure earnings management through accrual accounting?

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5) Provide two reasons why entities might engage in earnings management.

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End of Questions  
*Good Luck*