Level I of the CFA® 2025 Exam

Questions - Financial Statements Analysis

Offered by AnalystPrep

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Learning Module 1: Introduction to Financial Statement Analysis

Q.245 The management interpretation of the financial data can *best* be found in the:

A. supplementary information.

B. financial statement footnotes.

C. management discussions and analysis.

Q.343 The methods and estimates used in the preparation of financial statements are *most likely* mentioned in

A. The auditor's report.

B. The management commentary.

C. The notes to the financial statements.

Q.344 Contractual commitments and off-balance-sheet obligations are most likely described in

A. The proxy statement.

B. The income statement.

C. The management's discussion and analysis.

Q.347 Accounting policies adopted by a company to record depreciation would *most likely* be specified in the

A. income statement.

B. management commentary.

C. notes to the financial statements.

Q.352 Which of the following is *most likely* an external source of information when analyzing a company's reports?

A. Auditor's report.

B. Management commentary.

C. Financial analyses of peer companies.

Q.353 Which of these statements is *least likely* accurate regarding financial statement analysis?

A. Relative performance can be measured through the preparation of common-size financial statements.

B. Analysts should not make any adjustments to the financial statements for financial statement analysis.

C. The industry situation and the inflation are important factors to be considered for financial statement analysis.

Q.354 An equity analyst's report will *least likely* include:

A. the historical performance.

B. the industry and competitive analysis.

C. the opinion on the fairness of financial statements.

Q.1790 An analyst is reviewing the consolidated income statement of a company. He is unable to understand the reporting of the disposal of land. Which of the following will the analyst *most likely* find details regarding this disposal?

A. Balance sheet.

B. Financial statement notes.

C. Cash flow statement.

Q.1792 Which of the following statements is *least likely* part of the standard auditor's opinion?

A. Generally accepted principles were followed, thus providing reasonable assurance.

B. Whereas we prepared the financial statements, the managers have performed an independent review.

C. Auditors are satisfied that the statement is prepared in accordance with generally accepted principles and contains reasonable estimates.

Q.1798 Which of the following *best* describes the interim reports released by a company?

A. They are four qualified basic financial reports and condensed notes issued on semiannually or quarterly.

B. They are four unqualified basic financial reports and condensed notes issued on a semiannually or quarterly basis.

C. They are four unaudited basic financial reports and condensed notes issued on a semiannually or quarterly basis.

Q.1803 Which of the following is *least likely* to be reviewed by independent outside auditors?

A. Corporate press releases.

B. Internal controls of a company.

C. Management Discussion and Analysis (MD&A).

Q.1811 Which of the following statements is *most likely* accurate?

A. The Management Discussion and Analysis (MD&A) is provided as a separate supplement.

B. The Management Discussion and Analysis (MD&A) provides detailed numerical information regarding cash inflows and outflows of the firm.

C. In the U.S., the Securities and Exchange Commission (SEC) requires the Management Discussion and Analysis (MD&A) to discuss trends and uncertainties.

Q.1814 Andrew Anderson is an auditor for SRS Corp. While reviewing all of the income statements, he found some instances of accounts materially nonconforming to accounting standards. Which of the following is *most likely* the suitable opinion that Andrew should give regarding the SRS income statement?

A. A qualified opinion.

B. An adverse opinion.

C. An unqualified opinion.

Q.4568 In the context of the financial statement analysis framework, which step is primarily concerned with establishing the scope and objectives of the analysis?

A. Collect Data

B. Analyze and Interpret the Data

C. Articulate the Purpose and Context of the Analysis

Q.4570 Which step of the financial statement analysis framework *most likely* involves assessing the impact of resource constraints on the analysis?

A. Follow-up

B. Collect Data

C. Articulate the Purpose and Context of the Analysis

Q.4572 During which step of the financial statement analysis framework would an analyst *most likely* prepare forecasts and valuations based on the analyzed data?

A. Process Data

B. Analyze and Interpret the Data

C. Develop and Communicate Conclusions and Recommendations

Q.4574 Which of the following is *most likely* a primary objective of financial statement analysis?

A. To predict the exact future stock price of a company.

B. To determine the precise date of a company's bankruptcy.

C. To assess a company's ability to generate positive cash flows continuously.

Q.4575 Which of the following statements *best* describes the role of the International Organization of Securities Commissions (IOSCO)?

A. IOSCO is a regulatory authority that directly oversees all global financial markets.

B. IOSCO is responsible for enforcing securities laws and regulations in each of its member countries.

C. IOSCO provides a platform for its members to develop and promote adherence to internationally recognized standards for securities regulation.

Q.4576 Which of the following is *least likely* a core objective of securities regulation as defined by IOSCO's principles?

A. Systemic risk reduction.

B. Maximization of shareholder profits.

C. Ensuring a fair, efficient, and transparent market.

Q.4577 In the context of the US Securities and Exchange Commission (SEC), which of the following acts *most likely* established the Public Company Accounting Oversight Board (PCAOB) to oversee auditors?

A. Securities Act of 1933.

B. Sarbanes-Oxley Act of 2002.

C. Securities Exchange Act of 1934.

Q.4578 Which of the following forms is *least likely* typically filed annually with the SEC by companies with publicly traded securities?

A. Form 10-K.

B. Form 8-K.

C. Form 20-F

Q.4579 According to business and geographic segment reporting, which of the following is *most likely* the threshold for a segment to be considered reportable? If the segment accounts for:

A. 5 percent or more of the combined operating segments' revenue, assets, or profit.

B. 10 percent or more of the combined operating segments' revenue, assets, or profit.

C. 15 percent or more of the combined operating segments' revenue, assets, or profit.

Q.4580 Which of the following is *most likely* a significant difference between US GAAP and IFRS regarding inventory valuation?

A. Both US GAAP and IFRS prohibit the LIFO method.

B. IFRS allows the LIFO method, while US GAAP does not.

C. US GAAP allows the LIFO method, while IFRS does not.

Q.4581 In the context of financial reporting standards, which of the following statements is *most likely* true regarding the treatment of development costs?

A. IFRS requires development costs to be expensed.

B. US GAAP requires development costs to be capitalized.

C. IFRS allows for the capitalization of development costs if certain criteria are met.

Q.4582 Which of the following is *most likely* a reason why it is challenging for analysts to compare financial statements prepared under different accounting standards?

A. IFRS and US GAAP have fully converged, leaving no differences.

B. Reconciliation disclosures between IFRS and US GAAP are always required.

C. There are areas where accounting standards have not converged, and specific adjustments may be difficult without sufficient information.

Q.4583 Which of the following is *most likely* the primary reason analysts should monitor developments in financial reporting standards?

A. C. To prepare financial statements accurately.

B. A. To ensure compliance with legal requirements.

C. B. To understand the effect of these developments on financial reports.

Q.4586 Which of the following is *most likely* an example of an issuer source of information for financial statement analysis?

A. Free analyst reports.

B. Earnings calls hosted by the company.

C. Data from government economic indicators.

Q.4587 Which of the following is *most likely* considered a proprietary third-party source of information for financial statement analysis?

A. Social media platforms.

B. Press releases issued by the company.

C. Analyst communications and reports from platforms such as FactSet.

Q.4588 Which of the following is *most likely* the primary purpose of using information from sources outside the company in financial statement analysis?

A. To verify the accuracy of the company's financial statements.

B. To reduce the reliance on the company's audited financial statements.

C. To put the company's financial performance and prospects in perspective.

Q.4589 Which of the following is *least likely* a typical way for analysts to gather information for financial statement analysis?

A. Monitoring industry-specific news outlets.

B. Speaking with company management and investor relations.

C. Relying solely on the company's annual financial statements.

Learning Module 2: Analyzing Income Statements

Q.448 For its fiscal year-end, Brighter World Limited, a manufacturer of personal computers, reported a net income of $800 million and a weighted average of 80,000,000 common shares outstanding. At the moment, there is a total of 4,000,000 convertible preferred shares outstanding that paid an annual dividend of $8. Given that each preferred share is convertible into two shares of the common stock, the diluted EPS is *closest to*:

A. $8.72

B. $9.09

C. $11.11

Q.457 Which of the following approach is *most likely* to be adopted during the analysis if the warranty expense in relation to sales of two identical companies is substantially different?

A. Adjust the financials to increase the warranty expense to a higher level.

B. Adjust the financials to decrease the warranty expense to a lower level.

C. Review the trend of warranty claims received by the two companies and assess the need for adjustments.

Q.1786 Which of the following accounts is *most likely* to be reported in the statement of comprehensive income?

A. Dividends paid.

B. Secondary issuance.

C. Gains on available-for-sales securities.

Q.1923 Which of the following statements is *most likely* accurate?

A. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when paid.

B. Under the accrual method of accounting, revenues are recognized when received, and expenses are recognized when paid.

C. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred.

Q.1930 DADA Engineering is a construction firm based in India that has undertaken a long-term contract to build a conveyer belt for a client in 4 years for $10 million. The total cost of the project is $6 million, as given in the following table 1.

Table 1

Year 1	$2,000,000
Year 2	$1,500,000
Year 3	$500,000
Year 4	$2,000,000

The net income for the 1st year of the project is *closest to*:

A. $1.33 million

B. $3.33 million

C. $4 million

Q.1957 Baku Mart, a chain of hypermarkets, reported a net income of $400,000 and paid cash dividends of $260,000 to preferred stockholders for the year 2016. At the beginning of 2016, Baku had 8,000 shares of common stock outstanding, but the firm issued 3,000 new shares on November 1st, 2016. Given this information, the basic EPS of Baku Mart is *closest to*:

A. $12.73

B. $16.47

C. $48.06

Q.1959 AHZ Corp. has had a net income of $150,000 for the year 2016. The company had an average of 100,000 common shares and 1,500 preferred shares outstanding for the entire year. Assuming that each share of preferred stock is convertible into 20 shares of common stock, the diluted EPS is *closest to*:

A. $1.15.

B. $1.50.

C. $2.14.

Q.1960 AHZ Corp. has a net income of $150,000 and paid preferred dividends of $30,000. The firm had 100,000 common shares and 1,500 preferred shares outstanding for the entire year. Assuming that each share of preferred stock is converted into 20 shares of common stock, which of the following statements is most accurate regarding the earnings per share of AHZ Corp.?

A. The EPS is dilutive because the EPS after the conversion is less than the basic EPS.

B. The EPS is dilutive because the EPS after the conversion is greater than the basic EPS.

C. The EPS is anti-dilutive because the EPS after the conversion is greater than the basic EPS.

Q.3754 At the beginning of 2019, ABC Company issued 120,000 common shares. If it issued an additional 30,000 shares on March 1^{st} and did a 2 for 1 stock split on Aguust 1^{st}, the weighted average number of shares outstanding is *closest to:*

A. 145,000

B. 207,500

C. 290,000

Q.3756 Two companies, A and B, recorded the below information.

	Company A	Company B
Sales	$10.1 million	$13.4 million
Cost of goods sold	$4.6 million	$6.6 million
Administration costs	$0.8 million	$0.6 million
Rent expense	$0.1 million	$0.2 million
Research expense	$0.4 million	$0.3 million

The information above *suggests* that:

A. Company B has a higher gross margin as compared to company A.

B. Company B has a gross margin of 51%, while company A has an operating margin of 42%.

C. Company A has an operating margin of 43%, while Company B has an operating margin of 41%.

Q.3760 During 2018, ABC Company had 1,000,000 average outstanding common shares and 150,000 outstanding options. The options had a strike price of $10 each. The average stock price of ABC Company during the year was $20. The number of shares used in the denominator for the calculation of ABC's diluted EPS is *closest to*:

A. 1,000,000

B. 1,075,000

C. 1,150,000

Q.3762 In 2019, MMU Actuaries reported a net income of $35 million, a weighted average of 2,000,000 common shares outstanding, and 200,000 options outstanding with an average exercise price of $10. The company paid $5 million in preferred dividends. The company's average share price over the year was $25. The company's diluted EPS (using the treasury stock method) is *closest to*:

A. 14.15

B. 15.00

C. 16.51

Q.3763 ABC Company's gross, operating, and net profit margin for 2015 was 61.5%, 25%, and 16.51%. For the year 2016, use the financial data below to determine the profitability ratio that had the largest absolute increase.

Metric	Current year (%)
Revenue	100
Cost of goods sold	37.2
Interest expense	4.4
Research expense	5.3
Selling and general expenses	31.7
Income tax rate	22

A. Net profit margin.

B. Gross profit margin.

C. Operating profit margin.

Q.3764 A sales agent receives a commission of 30% for any items sold. If he sold items worth $ 3,000,000 in 2019, how much revenue should he report on his income Statement?

A. $900,000

B. $2,100,000

C. $3,000,000

Q.3768 The table below represents the information available on a company for the year 2019.

Net Income	$2,000,000
The average number of common shares outstanding	200,000
Convertible preferred shares outstanding	4,000
Dividend/Share	$20
Convertible bonds, $100 face value per bond	$100,000

The bond coupon and the corporate tax rate are 8% and 40%, respectively. Each preferred share is converted into 50 common shares and each bond into 30 common shares. The company's diluted EPS is *closest to*:

A. 4.66

B. 5.00

C. 8.37

Q.3769 In 2018, XYZ Corporation recorded a net income of $30 million. It paid its preference shareholders a dividend of $15 million. The Corporation had 300,000 outstanding common shares and 100,000 outstanding preference shares at the end of the year. Assume that each preferred share is convertible to 4 common shares. The diluted EPS of XYZ Corporation is *closest to*:

A. 21.43

B. 42.85

C. 50

Q.3838 Which of the following financial assets is *least likely* measured at cost or amortized cost?

A. Unquoted equity instruments.

B. Held-to-maturity instruments.

C. Derivatives, whether stand-alone or embedded in non-derivative instruments.

Q.3841 Consider the following information on Charlie's Company, for the year ended December 31st, 2015:

Outstanding shares January 1st,2015	5,000,000	
Stock options outstanding January 1st, 2015	150,000	Exercise price : $10.00
Shares issued March 1st, 2015	450,000	
Shares repurchased July 1st, 2015	120,000	
Average market price of common shares		$42/shares
Net income (2015)		$5,500,000

Charlie's diluted EPS is *closest to:*

A. 0.99

B. 1.00

C. 1.01

Q.4613 A company enters into a contract to sell a software license to a customer. The contract stipulates that the company will provide ongoing updates and support for the software. According to IFRS 15, the company should recognize revenue from the software license:

A. at the point in time when the license is transferred to the customer.

B. over the term of the license as the updates and support are provided.

C. in full when the contract is signed, regardless of future updates and support.

Q.4619 A manufacturing company enters into a long-term contract to build a specialized asset for a customer. The asset cannot be repurposed for use by another customer. Under IFRS 15, the company should recognize revenue:

A. over time as the asset is constructed.

B. in full at the commencement of the contract.

C. only upon completion and delivery of the asset.

Q.4620 A manufacturing company enters into a long-term contract to build a specialized asset for a customer. The asset cannot be repurposed for use by another customer. Under IFRS 15, the company should recognize revenue:

A. over time as the asset is constructed.

B. in full at the commencement of the contract.

C. only upon completion and delivery of the asset.

Q.4621 In a "bill and hold" arrangement, a company can recognize revenue before the customer takes physical possession of the goods. Under IFRS 15, which of the following conditions is *least likely* required for revenue recognition in a "bill and hold" arrangement?

A. The goods are ready for immediate delivery.

B. The customer has requested the arrangement.

C. The company has received full payment for the goods.

Q.4622 A company operates as both a principal and an agent in different transactions. When assessing the company's revenue for analytical purposes, an analyst should:

A. combine the revenue from principal and agent transactions to evaluate overall margins.

B. assess the relative proportion of principal versus agent sales to evaluate and forecast overall margins.

C. ignore the revenue from agent transactions as it does not contribute to the company's gross margin.

Q.4623 A construction company enters into a 3-year contract to build a bridge for USD 150 million. The estimated total cost to complete the project is USD 90 million. In the first year, the company incurs costs of USD 30 million. Using the percentage-of-completion method, how much revenue and profit should the company recognize in the first year?

A. Revenue: USD 50 million; Profit: USD 20 million

B. Revenue: USD 45 million; Profit: USD 15 million

C. Revenue: USD 30 million; Profit: USD 0 million

Q.4624 Company X purchases a piece of machinery for EUR 500,000, which has a useful life of five years and a salvage value of EUR 0. If Company X chooses to capitalize the machinery and depreciate it using the straight-line method, what will be the *most likely* impact on its return on equity (ROE) compared to expensing the machinery immediately?

A. ROE will be higher in the first year if the machinery is capitalized.

B. ROE will be higher in the first year if the machinery is expensed immediately.

C. ROE will be unaffected by the choice between capitalizing and expensing the machinery.

Q.4625 A company adopts a new accounting policy that results in the capitalization of certain costs that were previously expensed. What is the *most likely* impact of this change on the company's financial statements in the first year of adoption?

A. Increase in net income and decrease in total assets.

B. Increase in net income and increase in total assets.

C. Decrease in net income and decrease in total assets.

Q.4626 A company capitalizes interest costs associated with the construction of a building. How does this treatment affect the company's cash flow from operations (CFO) in the year the interest is capitalized?

A. CFO is unaffected because interest costs are included in investing cash flows.

B. CFO decreases because capitalized interest is treated as an operating expense.

C. CFO increases because interest costs are not expensed in the income statement.

Q.4627 In a period of rising inventory costs, how would this *most likely* affect the company's gross margin compared to immediate expensing of inventory costs?

A. Gross margin would be lower under the matching principle.

B. Gross margin would be higher under the matching principle.

C. Gross margin would be unaffected by the choice of expense recognition method.

Q.4628 BrightStar Corporation (BSC), a retail company, acquires inventory throughout the year to sell. At the beginning of 20X3, BSC had no inventory in stock. During 20X3, BSC made the following inventory purchases:

Quarter	Units	Cost per Unit
First quarter	3,000	USD 25
Second quarter	2,500	USD 28
Third quarter	3,500	USD 30
Fourth quarter	4,000	USD 32

Throughout the year, BSC sold 10,000 units at USD 40 each, receiving payment in cash. BSC determined that 3,000 units of inventory were left over, with 2,000 units specifically identified as being bought in the fourth quarter and 1,000 units acquired in the third quarter. The gross profit for BSC in 20X3, assuming no product returns is *closest to:*

A. 116,000

B. 284,000

C. 516,000

Q.4630 A company decides to discontinue a segment of its business. In its income statement, the results of this discontinued operation should be:

A. included in the revenue from continuing operations.

B. reported separately at the bottom of the income statement.

C. combined with unusual or infrequent items within continuing operations.

Q.4631 When a company acquires a significant business segment during the fiscal year, the financial statements should:

A. Exclude the results of the acquired segment until the next fiscal year.

B. Consolidate the results of the acquired segment from the acquisition's closing date.

C. Consolidate the results of the acquired segment from the beginning of the fiscal year.

Q.4632 If a company needs to change an accounting policy due to a new standard, the change should be applied:

A. Prospectively, affecting only future periods.

B. Only to the current period, without restating prior periods.

C. Retrospectively, restating prior periods as if the new policy had always been in place.

Q.4633 When a company corrects an error from a previous period, the correction should be:

A. reflected in the income statement of the current period.

B. treated as a change in accounting estimate and applied prospectively.

C. applied retrospectively by restating the financial statements of the prior periods presented.

Q.4634 In assessing a company's future financial performance, an analyst should:

A. include the results of discontinued operations in their projections

B. exclude the results of discontinued operations from their projections.

C. include only the unusual items from discontinued operations in their projections.

Q.4635 For the fiscal year ending December 31, 2023, a company reported a net income of USD 4,800,000. The company declared and paid USD 400,000 in dividends on preferred stock. During the year, the company's common stock share information is as follows:

- Shares outstanding on January 1, 2023: 1,600,000
- Shares issued on April 1, 2023: 400,000
- Shares repurchased on October 1, 2023: (200,000)
- Shares outstanding on December 31, 2023: 1,800,000

The company's basic earnings per share (EPS) for the year is *closest* to:

A. 2.38

B. 2.89

C. 3.00

Q.4637 On December 31, 2023, a company reported a net income of USD 1,200,000. It had an average of 500,000 shares of common stock outstanding and 10,000 shares of convertible preferred stock. Each share of preferred stock pays an annual dividend of USD 10 and is convertible into 4 shares of the company's common stock. The company's diluted earnings per share (EPS) using the if-converted method is *closest to*:

A. 2.22

B. 2.40

C. 2.50

Q.4640 XYZ Corporation reported a net income of USD 2,000,000 for the fiscal year ending December 31, 2023. The company had an average of 800,000 shares of common stock outstanding during the year. Additionally, XYZ Corporation had 50,000 stock options outstanding with an exercise price of USD 25 per option. The average market price of the company's stock during the year was USD 40 per share. There are no preferred dividends. The company's diluted earnings per share (EPS) using the treasury stock method is *closest to*:

A. 2.38

B. 2.44

C. 2.62

Q.4641 A company's income statement for the year ended December 31, 2023, shows the following:

Revenue	$\$4,000,000$
Cost of Goods Sold	$\$2,400,000$
Net Income	$\$800,000$

The company's gross profit margin for the year 2023 is closest to:

A. 40%

B. 50%

C. 60%

Q.4642 Which statement *best* describes the significance of analyzing both net profit margin and gross profit margin in assessing a company's profitability?

A. Net profit margin is the only relevant measure of profitability, making gross profit margin analysis unnecessary.

B. Analyzing both margins is redundant since they essentially provide the same information about a company's profitability.

C. Gross profit margin and net profit margin provide insights into different aspects of a company's operational efficiency and overall profitability.

Learning Module 3: Analyzing Balance Sheet

Q.348 A company's ability to meet short-term obligations is *most likely* termed as

A. solvency.

B. liquidity.

C. profitability.

Q.1974 Which of the following is the *most appropriate* statement regarding deferred tax assets?

A. Deferred tax assets are created when the amount of tax expense exceeds the amount of taxes payable.

B. Deferred tax assets are created when the amount of taxes payable exceeds the amount of tax expense in the income statement.

C. Deferred tax assets are created when the amount of taxes payable is equal to the amount of taxes expense in the income statement.

Q.1978 Everest Bank is analysing D-Corp to measure its ability to pay off a long-term debt that D-Corp has recently applied for. Which of the following analyses will serve this purpose?

A. Solvency analysis.

B. Liquidity analysis.

C. Profitability analysis.

Q.1981 Trance Inc. purchased outstanding stocks of Deep House Corp for $450 million. The following table is an excerpt of Deep House's balance sheet., calculate the amount of goodwill or the amount of gain on the purchase of Deep House's stocks if the fair value of the assets of Deep House is equal to its book value.

Account	Amount (in million $)
Cash	200
Inventory	50
Property, Plant and Equipment	480
Short-term Liabilities	80
Long-term Liabilities	150
Common Equity	500

If Deep House's fair value is equal to its book value, the amount of goodwill or the amount of gain on the purchase of Deep House's stocks is *closest to*:

A. Goodwill of $50 million is recognized on the balance sheet.

B. A loss of $50 million is recognized in the income statement.

C. A gain of $50 million is recognized in the income statement.

Q.1992 Simon Belfast, an equity analyst, analyzes two market leaders (Sun Corp. & Moon Inc.) in the automotive industry. As such, he collected the following data.

	Sun Corp.	Moon Inc.
Cash	250,000	410,000
Marketable securities	380,000	240,000
Inventory	220,000	550,000
PP&E	650,000	1,300,000
Short-term liabilities	300,000	300,000
Long-term liabilities	700,000	400,000
Common equity	500,000	1,800,000

The Sun Corp's cash ratio is *closest to*:

A. 0.63

B. 2.10

C. 2.83

Q.1993 Simon Belfast, an equity analyst, is analyzing two market leaders (Sun Corp. & Moon Inc.) in the automotive industry. Using the data given in the following table, Moon Inc's debt-to-asset ratio is *closest to*:

	Sun Corp.	Moon Inc.
Cash	250,000	410,000
Marketable securities	380,000	240,000
Inventory	220,000	550,000
PP&E	650,000	1,300,000
Short-term liabilities	300,000	300,000
Long-term liabilities	700,000	400,000
Common equity	500,000	1,800,000

A. 0.16

B. 0.28

C. 0.48

Q.1994 Simon Belfast, an equity analyst, is analyzing two market leaders (Sun Corp. & Moon Inc.) in the automotive industry. Using the data given in the following table, determine which firm is more liquid based on current ratios.

	Sun Corp.	Moon Inc.
Cash	250,000	410,000
Marketable securities	380,000	240,000
Inventory	220,000	550,000
PP&E	650,000	1,300,000
Short-term liabilities	300,000	300,000
Long-term liabilities	700,000	400,000
Common equity	500,000	1,800,000

A. Sun Corp is more liquid because its current ratio is 2.83.

B. Moon Inc. is more liquid because its current Ratio is 4.

C. Moon Inc. is more liquid because its current ratio is 2.83.

Q.1995 Which of the following is *most likely* a conservative liquidity ratio?

A. Cash Ratio.

B. Quick Ratio.

C. Current Ratio.

Q.3811 In 2018, the cash, quick and current ratios of a company were 2.09, 3.10, and 2.29 respectively. Below is select information from the balance sheet of the Company in 2019. Determine the ratio that *most likely* decreased.

	Amount in Millions
Cash and Cash Equivalents	102.0
Marketable Securities	369.5
Accounts Receivables	13.5
Other Current Assets	123
Total Current Assets	608
Accrued Interests and Expenses	92.0
Other Current Liabilities	103.0
Total Current Liabilities	195.0

A. Cash Ratio.

B. Quick Ratio,

C. Current Ratio.

Q.3812 Calculate the financial leverage of a company based on the data below.

Working Capital	$70 Million
Non-Current Assets	$245 Million
Equity	$180 Million
Current Ratio	2.0

A. 0.78

B. 1.36

C. 2.14

Q.3814 Select information from a company's 2018 balance sheet is as follows:

Cash and cash equivalents	$500 Million
Marketable Securities	$200 Million
Accounts Receivables	$100 Million
Inventories	$400 Million
Goodwill	$800 Million
Long Term Debt	$700 Million
Total Current Liabilities	$900 Million

If the current ratio of the company in 2017 was 1.50, its ability to meet its short-term obligations has *most likely*?

A. Increased.

B. Decreased.

C. Remained the same.

Q.3817 Consider the following information of a hypothetical company:

- Long-Term Debt – $30 Million
- Current Liabilities - $20 Million
- Total Equity – $50 Million
- Current Assets –$35 Million
- Non-Current Assets – $65 Million

The financial leverage is *closest to* :

A. 0.6

B. 1.0

C. 2.0

Q.4653 Under IFRS, the revaluation model for intangible assets can be used if:

A. the asset is internally generated.

B. the asset has a finite useful life.

C. there is a readily determinable market value for the asset.

Q.4654 Under US GAAP, which of the following costs associated with internally generated intangible assets is capitalized?

A. Advertising expenses.

B. Research phase expenses.

C. Both research phases and advertising expenses are not capitalized.

Q.4655 The impairment testing for intangible assets with an indefinite useful life is conducted:

A. at least annually.

B. only at the time of acquisition.

C. on a systematic basis over the asset's useful life.

Q.4656 Under IFRS, the initial recognition of an internally generated intangible asset in the development phase requires all of the following *except*:

A. demonstration of the technical feasibility of completing the asset.

B. evidence of market research confirming the demand for the asset.

C. ability to measure reliably the expenditure attributable to the asset during its development.

Q.4657 Which of the following factors is *least likely* to be considered in the valuation of economic goodwill?

A. Customer loyalty.

B. Management expertise.

C. Book value of tangible assets.

Q.4658 In the context of goodwill impairment testing, which of the following statements is *most accurate*?

A. Goodwill impairment losses are amortized over the remaining useful life of the asset.

B. Goodwill impairment is tested by comparing the carrying amount of the reporting unit to its recoverable amount.

C. Goodwill impairment testing is performed only when there is a significant decline in the market value of the company.

Q.4659 When assessing the fair value of net identifiable assets in a business combination, which of the following is *least likely* to be included?

A. Contingent liabilities.

B. Future revenue projections.

C. Recognized intangible assets.

Q.4660 Which of the following is *least likely* a reason for analysts to exclude goodwill from balance sheet data when adjusting financial statements?

A. To simplify the calculation of financial ratios.

B. To eliminate the effects of non-cash expenses related to goodwill impairment.

C. To assess the company's financial position based on its tangible assets and equity.

Q.4662 In the context of IFRS, which of the following *best* describes the measurement basis for a derivative instrument?

A. Fair value, with changes recognized in profit or loss.

B. Amortized cost, adjusted for changes in the entity's credit risk.

C. Fair value, with changes recognized in other comprehensive income.

Q.4663 Which of the following scenarios would *most likely* result in a financial asset being reclassified from measured at fair value through profit or loss to measured at amortized cost under IFRS?

A. The financial asset is a derivative instrument used for hedging purposes.

B. The financial asset is an equity instrument, and the entity decides to hold it for long-term strategic purposes.

C. The financial asset is a debt instrument, and the business model changes to holding the asset to collect contractual cash flows until maturity.

Q.4665 Under US GAAP, which of the following statements about the classification of financial assets is *most accurate*?

A. Debt securities intended to be held to maturity are classified as trading securities.

B. Equity investments that provide significant influence are measured at fair value through profit or loss.

C. Trading securities are acquired with the intention of selling them in the near term and are measured at fair value through profit or loss.

Q.4666 How does the issuance of a bond at par value affect the company's financial statements over the life of the bond?

A. The carrying amount of the bond liability remains constant throughout its life.

B. The interest expense decreases over time due to the amortization of the discount.

C. The carrying amount of the bond liability fluctuates based on changes in market interest rates.

Q.4667 In the context of deferred tax liabilities, which of the following situations is *most likely* to result in a larger deferred tax liability over time?

A. A company consistently reports higher taxable income than accounting income.

B. A company recognizes revenue in the same period for both tax and financial reporting purposes.

C. A company applies straight-line depreciation for tax purposes and accelerated depreciation for financial reporting purposes.

Q.4668 Which of the following scenarios would *least likely* result in the creation of a deferred tax liability?

A. A company uses different methods for inventory valuation for tax and financial reporting purposes.

B. A company recognizes dividends from a subsidiary in its financial statements only when they are received.

C. A company incurs expenses that are deductible for tax purposes in a different period than they are recognized for financial reporting purposes.

Learning Module 4: Analyzing Statements of Cash Flows 1

Q.474 Which of the following statements is *least likely* accurate?

A. US GAAP allows the recognition of interest expenses as operating or financing expenses.

B. IFRS allows the recognition of interest expenses as operating or financing expenses.

C. Interest expenses are always classified as operating activity under US GAAP.

Q.477 The accountant of a small firm has recorded the following information for the year 2016:

Book value of plant, property and equipment (PPE) at the beginning of the year:	$100,000
Book value of plant, property and equipment (PPE) at the end of the year:	$130,000
Sale of a plant during the year	$8,000
The book value of the plant on the date of the sale	$15,000
Depreciation charged during the year:	$20,000

From the given data, the cash flow from investing activities is *closest to* a:

A. cash inflow of $8,000.

B. cash inflow of $15,000.

C. cash outflow of $57,000.

Q.2062 Firm A reports under US GAAP, and Firm B follows IFRS. Both firms sell identical assets held for investment purposes for the same price of $2.5 million. Assuming that the income tax on the sale of the investment is $275,000, which firm is *most likely* to report lower cash flows from operating activities?

A. Firm A.

B. Firm B.

C. Both firms will always have identical cash flows from operations.

Q.2063 Which of the following is *least likely* accurate regarding the presentation of cash flow statements?

A. In the direct method, we start by listing cash payments and receipts.

B. Under the direct method, adjustments related to depreciation and amortization are necessary.

C. The starting point of the indirect method of presenting the statement of cash flows is ''Net income.''

Q.2068 Petrobras, an oil shipping company, reported interest expense of $24 million and taxes of $10 million. Interest payable increased by $8 million, while taxes payable decreased by $3 million over the period. How much cash did the company pay for interest and taxes?

A. $16 million for interest and $7 million for taxes.

B. $16 million for interest and $13 million for taxes.

C. $32 million for interest and $13 million for taxes.

Q.2069 Assume, for this question, that Alaska Tex recently changed its accounting standard from US GAAP to IFRS and earned $500,000 in net income in 2016. The interest expenses are related to financing activity. Using the accounts given in the following table, calculate the cash flow from operations using the indirect method after making appropriate adjustments to net income.

	2016	2015
Depreciation Exp.	100,000	80,000
Gain on Sale of Land	55,000	
Interest Exp.	37,000	22,000
Plant	450,000	370,000
Accounts Receivable	170,000	135,000
Inventory	90,000	115,000
Wages Payable	87,000	69,000
Taxes Payable	85,000	63,000

A. $538,000

B. $590,000

C. $612,000

Q.2070 Atlas Corp. is a fast-moving consumers firm based in Italy whose financial data is provided in the following table. For this question only, assume that Loss on the sale of land is $5 million.

(In million $)	2005	2004
Accounts Receivable	96	85
Inventory	75	65
Gross Land	85	96
Gross Plant	46	31
Accumulated Depreciation	11	6
Net Plant	35	25

The cash from the sale of land using the given data is *closest to*:

A. -$16 million.

B. $6 million.

C. $16 million.

Q.2071 Atlas Corp. is a fast-moving consumers firm based in Italy whose financial data is provided in the following table. For this question only, assume that Loss on the sale of Land is $5 million. Calculate the cash flow from investing activities using the given data.

(In million $)	2005	2004
Accounts Receivable	96	85
Inventory	75	65
Gross Land	85	96
Gross Plant	46	31
Accumulated Depreciation	11	6
Net Plant	35	25

A. $-9 million.

B. $-1 million.

C. $6 million.

Q.2073 A firm recently adjusted its capital structure, and some of the accounts related to its balance sheet are given in the following table:

Year	2015	2014
Dividends Payable	$69,000	$24,000
Bonds	$160,000	$90,000
Common Shares	$250,000	$300,000

Assuming that the company recently paid dividends of $100,000, the cash flow from financing activities is *closest to*:

A. -$35,000.

B. $15,000.

C. $70,000.

Q.2074 Which of the following transactions is *most likely* considered an investing activity under IFRS?

A. Interest received.

B. Dividend paid on shares.

C. Increase in accounts receivables.

Q.2075 Which of the following financing activity is *most likely* considered an operating activity under IFRS?

A. Issuance of corporate debt.

B. Cash paid for reacquiring preferred shares.

C. Interest paid on a long-term corporate bond.

Q.2080 Beverly Drinks reported the cost of goods sold of $120 million for the current year. Total assets increased by $75 million while inventory declined by $26 million. Also, total liabilities increased by $65 million while accounts payable increased by $2 million. The amount of purchases made during the year is *closest* to:

A. $92 million.

B. $94 million

C. $146 million

Q.2081 An analyst gathered the following information from a company's 2018 financial statements (in $ millions):

Balances as of Year Ended 31 Dec	2017	2018
Retained Earnings	150	175
Accounts Receivable	68	73
Inventory	75	78
Accounts Payable	66	59

In 2018, the company paid cash dividends of $40 million and recorded $55 million in depreciation expense. The company considers dividends paid a financing activity. Given this information, the company's 2018 cash flow from operations (in $ millions) was *closest to*:

A. $105

B. $110

C. $112

Q.2082 Under IFRS, dividends received is *most likely* classified as:

A. either financing or investing activities.

B. either operating or financing activities.

C. either operating or investing activities.

Q.2085 Mavi Inc. is a male fashion brand based in Italy. Ahmed is an analyst working on the cash flow statement of Mavi using the direct method.

Sales	150
COGS	90
Interest Expenses	30
Dep. Expenses	25
Decrease in Acc. Rec.	10
Increase in Acc. Pay.	20
Increase in Int. Pay.	20

Using the financial data provided in the table above, the value of Mavi's Cash Interest that should be used when calculating cash flow from operating activities is *closest to*:

A. $10

B. $30

C. $70

Q.2086 Mavi Inc. is a male fashion brand based in Italy. Ahmed is an analyst working on the cash flow statement of Mavi using the direct method. Using the financial data provided in the following table, Mavi's cash flow from operating activities *closest to*:

Sales	150
COGS	90
Interest Expenses	30
Dep. Expenses	25
Decrease in Acc. Rec.	10
Increase in Acc. Pay.	20
Increase in Int. Pay.	20

A. $50

B. $80

C. $135

Q.3803 Consider the information given below.

	2019	2018
Accounts Receivables	$75 Million	$100 Million
Revenues	$50 Million	$60 Million

Based solely on the information above, the amount of cash received from clients in 2019 is *closest to*:

A. $75 Million

B. $85 Million

C. $150 Million

Q.3804 At its fiscal year-end 2019, a company reported $120 million in revenue, $90 Million in expenses. If the company equally reported a $20 million increase in its accounts receivable, the cash received from its customers for that fiscal year is *closest to*:

A. $100 million.

B. $120 million.

C. $140 million.

Q.3807 Below is a company's financial performance for the year 2018.

Revenue	$235,000,000
Cost of goods sold	$100,000,000
Operating expenses	$35,000,000
Other expenses	$10,000,000

The company maintained its revenue and operating costs in 2019 due to long-term contracts with its suppliers and customers. Its other expenses, however, increased by 15%. The company's gross profit for the year 2019 is *closest to*:

A. $88,500,000

B. $100,000,000

C. $135,000,000

Q.3808 A company that is compliant with the US GAAP reports its cash flows using the indirect method. In 2019, the company reported a net income of $300,000 and revenue of $700,000. The company's income tax payable decreased by $70,000, while its interest expenses payable increased by $80,000. If the company reported using the direct method, the amount of cash paid for operating expenses is *closest to*:

A. $390,000

B. $410,000

C. $690,000

Q.3851 A provision for doubtful accounts was created by Alpha LLC for the year 2014. What is the *most appropriate* treatment for doubtful accounts while preparing operating cash flows under the indirect method?

A. Added to net income.

B. Deducted from net income.

C. Neither added nor deducted from net income.

Q.4673 When considering the relationship between current assets and operating activities, how does an increase in prepaid expenses *most likely* affect the cash flow statement?

A. Indicates a cash inflow from operations.

B. Represents a cash outflow from operations.

C. Has no impact on the cash flow statement.

Q.4674 Considering the accrual basis of accounting, what does an increase in accounts payable *most likely* suggest about a company's cash outflows?

A. The company is paying off suppliers quickly.

B. The company is delaying payments to suppliers.

C. The company's expenses are lower than in previous periods.

Q.4675 Which of the following is *most likely* an impact of recognizing revenue on an accrual basis when it exceeds the actual cash collected from customers?

A. Increases accounts receivable balance.

B. Leads to an increase in cash balance.

C. Decreases accounts receivable balance.

Q.4677 Which of the following *most likely* details how the ending retained earnings balance is determined on the balance sheet?

A. By subtracting net income from dividends paid.

B. By adding net income to the beginning retained earnings and then subtracting dividends paid.

C. By adding dividends paid to the beginning retained earnings and then subtracting net income.

Q.4678 When a company receives advance payments for services or products to be delivered in the future, how is this reported in the financial statements? As an increase in:

A. assets and expenses.

B. liabilities and revenue.

C. assets and liabilities.

Q.4679 Kenya Tea Development Agency (KTDA) reported an increase in inventory of USD 169,000 and a cost of goods sold (COGS) of USD 11,345,000. If the beginning inventory was USD 3,856,000, the cash paid to suppliers, assuming the increase in accounts payable was USD 300,000 is *closest to:*

A. USD 11,846,000

B. USD 11,514,000

C. USD 11,214,000

Q.4680 A company’s net income for the year ended December 31, 2023, is USD 3,521,000. If depreciation expense is USD 1,100,000 and there's a gain on sale of equipment of USD 220,000, the net cash from operating activities using the indirect method, considering there are no other adjustments is *closest to:*

A. USD 3,401,000

B. USD 4,401,000

C. USD 4,543,000

Q.4681 If a company has beginning retained earnings of USD 3,305,000 and an ending retained earnings of USD 4,106,000, the amount of dividends that the company paid during the year if the net income was USD 3,521,000 is *closest to:*

A. USD 2,720,000

B. USD 2,800,000

C. USD 3,000,000

Q.4682 Consider a company whose accounts receivable increased by USD 39,000 during the year, and the revenue reported was USD 25,456,000. The amount that the company received from its customers is *closest to:*

A. USD 25,417,000

B. USD 25,495,000

C. USD 25,380,000

Q.4683 Consider the following snippet of the income statement of a hypothetical company, Atlas Energy Group.

Atlas Energy Group Income Statement Year Ended 31 December 2023 (in thousands)	
Revenue	$75,000
Cost of Goods Sold	$35,000
Research and Development	$5,000
Selling and Administrative Expenses	$8,000
Depreciation Expense	$4,500
Interest Expense	$2,500
Income Tax Expense	$6,000
Net Income	$14,000

If Atlas Energy Group had an increase in inventory of $3 million, a decrease in accounts receivable of $1.5 million, and depreciation is the only non-cash expense, what was the net cash from operating activities using the indirect method?

A. $15 million

B. $17 million

C. $18 million

Q.4684 Consider the following snippet of the income statement of a hypothetical company, Nova Innovations'.

Nova Innovations Balance Sheet as of 31 December 2023 (in thousands)		
Assets	2023	2022
Cash and Cash Equivalents	$15,000	$10,000
Accounts Receivable, net	$18,000	$20,000
Inventory	$12,000	$10,000
Prepaid Expenses	$2,000	$1,500
Property, Plant and Equipment, net	$45,000	$40,000
Intangible Assets, net	$8,000	$8,500
Total Assets	$100,000	$90,000
Liabilities and Shareholders' Equity		
Accounts Payable	$11,000	$9,000
Accrued Liabilities	$7,000	$8,000
Long-term Debt	$25,000	$30,000
Shareholders' Equity	$57,000	$43,000
Total Liabilities and Shareholders' Equity	$100,000	$90,000

Considering the changes in Nova Innovations' balance sheet from 2022 to 2023, if the only investments were capital expenditures of $10.5 million and there were no sales of the total cash used in investing activities is *closest to*:

A. 5.5 million

B. 9.0 million

C. 10.5 million

Q.4685 Which of the following *most likely* explains how depreciation expense is treated in the calculation of net cash flow from operating activities using the indirect method?

A. Added back to net income.

B. Subtracted from net income.

C. Ignored because it does not affect cash flow.

Q.4686 If a company reports an increase in inventory, which of the following is most likely the effect on the cash flow from operating activities using the indirect method? The cash flow from operating activities:

A. increases

B. decreases

C. remains constant.

Q.4687 Which of the following *most likely* explains why it is necessary to add back depreciation expense when calculating cash flow using the indirect method?

A. Depreciation represents an outflow of cash that must be replenished.

B. Depreciation increases cash flow directly and must be accounted for.

C. Depreciation does not affect cash flow; thus, it is added to reconcile net income with actual cash flow.

Q.4688 In 2023, Apex Ventures reported a net income of USD 50 million. An excerpt of its balance sheet is given below.

Apex Ventures Balance Sheet Summary	31 Dec 2022	31 Dec 2023	Change
Common Stock	USD 200 million	USD 210 million	USD 10 million
Additional Paid-in Capital	USD 150 million	USD 200 million	USD 50 million
Retained Earnings	USD 120 million	USD 150 million	USD 30 million
Total Stockholders' Equity	USD 470 million	USD 560 million	USD 90 million

The amount of common stock and dividends reported in the statement of cash flows for the year 2023 are *closest to*:

A. Issuance of common stock totaling USD 60 million; dividends of USD 20 million.

B. Issuance of common stock totaling USD 60 million; dividends of USD 10 million.

C. Issuance of common stock totaling USD 60 million; dividends of USD 30 million.

Q.4689 In 2023, a technology company operating under US GAAP reported the following cash payments and other relevant financial data in (millions):

	2022	2023
Revenue	$65	$60
Cost of goods sold	$25	$23
Inventory	$20	$25
Accounts receivable	$15	$12
Accounts payable	$10	$9

Other cash payments for the year 2023 included:

- Salaries: USD 10 million
- Interest expense: USD 4 million
- Income taxes: USD 6 million

Based only on the information in Exhibit 2, the company's operating cash flow for 2023 is *closest to*:

A. USD 14 million.

B. USD 17 million.

C. USD 26 million.

Q.4690 Which classification option for interest received is available under IFRS but not under US GAAP?

A. Operating activity only.

B. Operating or investing activity

C. Financing activity.

Q.4691 Under IFRS, dividends paid is *most likely* classified on the cash flow statement as:

A. a financing activity.

B. an operating or financing activity.

C. an investing or financing activity.

Q.4692 Which of the following is *most likely* a significant difference in how bank overdrafts are classified under IFRS and US GAAP?

A. Both standards treat them as financing activities.

B. IFRS includes them in cash and cash equivalents, while US GAAP treats them as financing activities.

C. IFRS treats them as financing activities, while US GAAP treats them as part of cash and cash equivalents.

Q.4693 How does US GAAP require income tax expense to be classified on the cash flow statement?

A. Always as a financing activity.

B. Always as an operating activity.

C. As an operating, investing, or financing activity based on the tax's nature.

Q.4694 Which of the following statements is *most likely* true regarding the direct method of reporting cash flow from operating activities in both IFRS and US GAAP? The direct method is:

A. required under both standards.

B. discouraged under both standards.

C. encouraged but not required under both standards.

Learning Module 5: Analyzing Statements of Cash Flows 2

Q.476 Which of the following is *most likely* a coverage ratio?

A. Reinvestment ratio.

B. Cash to income ratio.

C. Cash return on assets.

Q.2088 Free cash flow for the firm (FCFF) is *most likely* available to:

A. debt holders.

B. equity holders.

C. debt holders and equity holders.

Q.2089 Which of the following is the *most appropriate* equation for calculating Free Cash flow to the Equity (FCFE)?

A. FCFE = CFO - Fixed capital expenditure + Net borrowing

B. FCFE = CFO + Interest×(1 - Tax rate) - Fixed Capital Expenditure

C. FCFE = CFO + Interest×(1- Tax rate) - Fixed capital expenditure + Net borrowing

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Q.2090 The financial data of a hypothetical firm is provided below.

Net Income	700
Depreciation Expense	57
Decrease in Acc. Rec.	49
Increase in Inventory	36
Interest Expense	100
Increase in Capital Expenditure	180
Debt Issued	450
Debt Repaid	330

Assuming a tax rate of 40%, the Free Cash Flow for the Firm (FCFF) using the cash flow from operating activities equation is *closest to*:

A. $650

B. $690

C. $770

Q.2094 A firm has recently repaid its long-term debt obligations. Using the data given below, based on cash flow from operations the debt payment ratio is *closed to*:

Net Income	700
Depreciation Expense	57
Decrease in Acc. Rec.	49
Increase in Inventory	36
Interest Expense	100
Increase in Capital Expenditure	180
Debt Issued	450
Debt Repaid	330

A. 0.99

B. 1.77

C. 2.33

Q.2096 Grand Co. is a laptop distributor firm whose financial data is provided in the following table. Using the given data, the FCFF of Grand Co. is *closest to*:

Net Income	200,000
Depreciation	70,000
Interest Expense (Net of Taxes)	37,000
Fixed Capital Expenditure	110,000
Working Capital Expenditure	77,000
Net Borrowing	65,000
Tax Rate	30%
Interest Rate	8%

A. $108,000

B. $120,000

C. $200,000

Q.3801 A company reported the following information:

Net income	$323 Million
Cash flow from Investing Activities	$13 Million
Cash flow from Financing Activities	$40 Million
Cash flow from Operating Activities	$62 Million
Total Cash Flows	$115 Million
Assets at the beginning of the period	$100 Million
Assets at the end of the period	$143 Million

The company's cash return on asset ratio is *closed to*:

A. 0.1069

B. 0.5102

C. 0.9465

Q.3802 Determine the cash flow debt coverage ratio of a company based on the information provided below.
Cash Flow Metrics From Investing Activities: \$ 15 Million From Financing Activities: \$ 13 Million From Operating Activities: \$ 90 Million Total Cash Flows: \$ 118 Million Total Debt: \$ 270 Million

A. 0.333

B. 0.437

C. 0.556

Q.4734 A company in its growth phase shows a persistent negative operating cash flow over several years despite increasing net income annually. Which of the following implications is most concerning for the company's long-term financial health?

A. The company's inventory management is highly efficient.

B. The company's depreciation methods are likely too aggressive.

C. The company may need to seek external financing to support its operations continuously.

Q.4735 Which of the following statements is *most accurate* about the role of common-size cash flow statements in financial analysis?

A. They help compare the cash flow structures of companies of different sizes.

B. They primarily assist in assessing the profitability of a company's investments.

C. They are most useful for determining the exact dollar amounts of cash inflows and outflows.

Q.4736 Which of the following statements is *most* accurate?

A. For mature companies, financing activities would be preferable as the primary source of cash flows.

B. If a company has a significant net income despite its negative operating cash flow, this may indicate poor earnings quality.

C. One approach to the common-size analysis of the cash flow statement involves expressing each cash flow (inflows and outflows) as a percentage of total cash inflows.

Q.4737 A company reported the following figures for the fiscal year:

- Net income: $120,000
- Depreciation and amortization: $30,000
- Interest Expense: $20,000
- Tax Rate: 40%
- Capital Expenditures: $50,000
- Increase in Working Capital: $10,000

The Free Cash Flow to the Firm (FCFF) is *closest to:*

A. $74,000

B. $86,000

C. $102,000

Q.4738 Consider the following data from a company's financial statements for the year 2023:

- CFO (Cash from Operations): $400,000
- Interest Paid (post-tax): $24,000
- Dividends Paid: $30,000
- Long-term Asset Purchases: $100,000

The Cash Flow Coverage ratio for dividends is *closest to:*

A. 10.35

B. 15.25

C. 13.33

Q.4739 Which of the following best describes the implications of a consistently decreasing Free Cash Flow to the Firm (FCFF) over several years for a company not experiencing significant investments?

A. It may indicate increased efficiency in asset utilization.

B. It reflects an intentional strategy of leveraging for growth.

C. It suggests potential challenges in sustaining operations without external financing.

Q.4740 Consider a scenario where a company's Free Cash Flow to Equity (FCFE) is significantly higher than its Free Cash Flow to the Firm (FCFF). What does this suggest about the company's financial strategy?

A. The company is likely reducing its debt load aggressively.

B. The company is maintaining a high level of reinvestment in fixed assets.

C. The company potentially increases its leverage, resulting in higher net borrowing.

Q.4741 A high cash return on assets ratio is observed in a company with relatively stable revenue but significantly fluctuating net income. What could this *most likely* indicate about the company's earnings?

A. The company has made several large, one-time sales of assets.

B. The company might be involved in aggressive earnings management.

C. The company is experiencing substantial non-cash expenses like depreciation or amortization.

Q.4742 What does a declining debt payment coverage ratio over time generally *most likely* indicate about a company's financial health?

A. The company opts to refinance its existing debts rather than pay them down.

B. The company increasingly uses its cash flow for investment rather than debt repayment.

C. The company's operational cash flow is deteriorating relative to its long-term debt obligations.

Q.4743 Suppose a company shows a consistently high cash flow to revenue ratio while its net income to revenue ratio is declining. What might this *most likely* indicate about its operational practices?

A. The company may be realizing high non-operating revenues.

B. The company is effectively controlling its operational cash expenditures.

C. The company is likely facing increasing non-cash charges impacting profitability.

Learning Module 6: Analysis of Inventories

Q.511 Xing, a company engaged in the trade of mobile parts and accessories, reduced its inventory value to its current replacement cost and recorded a write-off of $0.5 million in 2014. However, in 2015, the net realizable value is now $0.3 million higher than its carrying value. What would be the *most appropriate* accounting treatment using the US GAAP?

A. No accounting treatment is required.

B. Increase inventory fluctuation allowance by $0.3 million.

C. Increase inventory value by $0.3 million and reduce the cost of sales.

Q.512 A company following the weighted-average method of inventory valuation decides to shift to LIFO for the current year. Which of the following adjustment would *most likely* be made, assuming that the company follows US GAAP?

A. The company cannot shift to LIFO.

B. No adjustments have to be made to historical financials.

C. Historical financials have to be reinstated for the change in method to facilitate comparison.

Q.516 Which of the following methods will *most likely* give a higher debt-to-equity ratio in the case of rising prices?

A. LIFO.

B. FIFO.

C. Weighted average.

Q.518 An analyst has gathered the following information on a small-cap firm for the month of May 2016:

Opening inventory: $2 million
Closing inventory: $3 million
Cost of sales: $10 million

Given the information, the inventory turnover ratio is *closest to*:

A. 3.

B. 4.

C. 5.

Q.519 Which of the following businesses is expected to have the lowest inventory turnover ratio?

A. A bread manufacturer.

B. A luxury car manufacturer.

C. A supplier of electrical fittings.

Q.1943 Which of the following inventory cost methods will *most likely* result in the lowest net income in an inflationary environment?

A. Last-in, first-out (LIFO).

B. First-in, first-out (FIFO).

C. Weighted average cost (WAC).

Q.1944 Which of the following inventory cost recognition method will *most likely* result in the highest ending inventory in an inflationary environment?

A. LIFO.

B. FIFO.

C. Weighted average method.

Q.1948 Turks Printers is a printer retailer that sells printers to large corporations. Assume that Turks uses the weighted average cost method of inventory.

Beginning Inventory	50 printers at $100 each
Purchased on January 1st	100 printers at $110 each
Purchased on March 1st	20 printers at $130 each

If Turks sell 100 printers to Loop Corp. in April, the ending inventory for Turks is *closest to*:

A. $7,200

B. $7,658

C. $8,100

Q.1950 Which of the following inventory cost recognition method will result in the highest net income in times of falling prices?

A. LIFO.

B. FIFO.

C. Weighted average method.

Q.1969 A firm following IFRS reports its inventory with the carrying value of $450,000. If the net realizable value of inventory is $500,000, then the amount of the gain/loss on write-down of inventory is *closest to*:

A. $0.

B. a $50,000 loss.

C. a $50,000 gain

Q.1971 Core Corp. has an inventory with a carrying value of $12,000 with the additional data given below.

Selling Price	$8,000
Selling Cost	$1,500
Normal Profit	$2,000
Replacement Cost	$5,500

The current inventory value after adjustments if Core reports under IFRS is *closest to*:

A. $4,500

B. $5,500

C. $6,500

Q.1972 Core Corp., an agricultural company, reports under IFRS and its inventory was written down to $6,500. The original value of the inventory was $8,000. However, due to a shortage in supply, the Net Realizable Value (NRV) of inventory recently increased to $8,000. Which of the following is *most likely* the value of the write-up of inventory?

A. $0

B. $1,500

C. $2,000

Q.2174 Identify the *most appropriate* statement regarding the First-In, First-Out (FIFO) method.

A. In FIFO, the COGS is valued based on the most recently purchased inventory.

B. In FIFO, the ending inventory is valued based on the most recently purchased inventory.

C. The beginning inventory is always the same under FIFO and the Specific identification method.

Q.2175 Which of the following cost valuation methods will *most likely* result in the lowest tax expenses during a period of inflation?

A. FIFO.

B. LIFO.

C. Weighted average cost.

Q.2176 Which of the following cost valuation methods is *most likely* to increase the current ratio during a period of inflation?

A. FIFO.

B. LIFO.

C. Weighted average cost.

Q.2177 Which of the following statements related to the weighted average cost method is *most accurate*?

A. During inflationary periods, inventory values generated by the weighted average cost method will be higher than last-in, first-out (LIFO) values but lower than first-in, first-out (FIFO) values.

B. During inflationary periods, inventory values generated by the weighted average cost method will be higher than first-in, first-out (FIFO) values but lower than last-in, first-out (LIFO) values.

C. During inflationary periods, inventory values generated by the weighted average cost method will be the same in first-in, first-out (FIFO), and last-in, first-out (LIFO) values.

Q.2179 2179 An electronic appliances trading company acquires units of LCD TVs on a monthly basis. The accountant of the firm is unsure whether to use the first-in, first-out (FIFO) method or the last-in, first-out (LIFO) method. He has given you the following information:

Date		No. of Units
1-Oct	Buy LCD TVs @ $300	600
8-Oct	Buy LCD TVs @ $370	450
22-Oct	Buy LCD TVs @ $400	300
30-Oct	Sold LCD TVs	800

Using the data given in the table, the difference between the values of FIFO ending inventory and LIFO ending inventory is *closest to*:

A. $47,500.

B. $81,700.

C. $254,000.

Q.2180 An electronic appliances trading company acquires units of LCD TVs on a monthly basis. Using the data given in the following table, determine which valuation system will provide higher Ending inventory.

Date		No. of Units
1-Oct	Buy LCD TVs @ $300	600
8-Oct	Buy LCD TVs @ $370	450
22-Oct	Buy LCD TVs @ $400	250
30-Oct	Sold LCD TVs	800

A. FIFO Ending Inventory of $192,500

B. LIFO Ending Inventory of $150,000

C. FIFO Ending Inventory of $150,000

Q.2181 A toys company based in Dubai purchases its inventory weekly. On July 1st, the firm purchased 100 units of goods for $120 and, on July 8th, the firm purchased another 80 units of goods for $125. Assuming that the firm sold 120 units of goods for $130/unit, and its operating expenses are $200, the gross profit under the FIFO inventory method is *closest to*?

A. $400

B. $1,100

C. $1,200

Q.2185 A US-based firm supplies small quantities of fuel for generators of small businesses in remote areas. Considering the recent increase in oil prices, the impact on the firm's working capital, if the firm uses the FIFO method, is *most likely*?

A. Working capital will be lower.

B. Working capital will be higher.

C. Working capital will remain unchanged.

Q.2186 Which of the following conditions will *most likely* result in the highest net cash flow from operating activities during the period of rising prices?

A. LIFO method during rising prices.

B. FIFO method during rising prices.

C. Cash flows will be the same under both methods.

Q.2187 Identify the relationships that are *least likely* to hold during deflationary periods.
I. LIFO COGS > FIFO COGS
II. LIFO Inventory > FIFO Inventory
III. LIFO Net Income > FIFO Net Income
IV. LIFO Taxes < FIFO Taxes

A. I & IV

B. II & III

C. III & IV

Q.2190 Avant-Gard Company is based in the US and reports under US GAAP. However, most of its operations have recently shifted to the European market. Assuming that the company has converted from LIFO to FIFO, determine the changes in the cash balance for the fiscal year that ended in 2016.

Balance Sheet

	2017	2016	2015
LIFO Inventory	$97,000	$89,000	
Cash	$276,000	$225,000	
Current Liabilities	$73,000	$84,000	
Loans	$100,000	$50,000	
Equity	$200,000	$180,000	

Income Statement

	2017	2016	2015
Sales	$410,000	$375,000	
COGS	$230, 000	$215,000	
Gross Profit	$180,000	$160,000	
Operating Exp.	$80,000	$75,000	
EBIT	$100,000	$85,000	
Taxes (30%)	$30,000	$25,500	
Net Income	$70,000	$59,500	
LIFO Reserves	$19,500	$13,000	$10,500

A. Cash will increase by $750.

B. Cash will decrease by $750.

C. Cash will remain unchanged.

Q.2191 Avant-Gard Company is based in the US and reports under US GAAP. However, most of its operations have recently shifted to the European market. Assuming that the company has converted from LIFO to FIFO, the current ratio for the fiscal year that ended in 2016 is *most likely*?

Balance Sheet

	2017	2016	2015
LIFO Inventory	$97,000	$89,000	
Cash	$276,000	$225,000	
Current Liabilities	$73,000	$84,000	
Loans	$100,000	$50,000	
Equity	$200,000	$180,000	

Income Statement

	2017	2016	2015
Sales	$410,000	$375,000	
COGS	$230, 000	$215,000	
Gross Profit	$180,000	$160,000	
Operating Exp.	$80,000	$75,000	
EBIT	$100,000	$85,000	
Taxes (30%)	$30,000	$25,500	
Net Income	$70,000	$59,500	
LIFO Reserves	$19,500	$13,000	$10,500

A. $3.7

B. $3.88

C. $4.14

Q.2192 Avant-Gard Company is based in the US and reports under US GAAP. However, most of its operations have recently shifted to the European market. Assuming that the company has converted from LIFO to FIFO, calculate the percentage change in net profit margin for the fiscal year that ended in 2017.

Balance Sheet

	2017	2016	2015
LIFO Inventory	$97,000	$89,000	
Cash	$276,000	$225,000	
Current Liabilities	$73,000	$84,000	
Loans	$100,000	$50,000	
Equity	$200,000	$180,000	

Income Statement

	2017	2016	2015
Sales	$410,000	$375,000	
COGS	$230, 000	$215,000	
Gross Profit	$180,000	$160,000	
Operating Exp.	$80,000	$75,000	
EBIT	$100,000	$85,000	
Taxes (30%)	$30,000	$25,500	
Net Income	$70,000	$59,500	
LIFO Reserves	$19,500	$13,000	$10,500

A. 1.11%

B. 6.5%

C. 17.07%

Q.2193 Estimate the impact on the inventory turnover ratio if a firm converts its inventory valuation method from LIFO to the FIFO during a period of rising prices.

A. The Inventory turnover ratio increases.

B. The Inventory turnover ratio decreases.

C. The Inventory turnover ratio remains unchanged.

Q.2195 Compare the fixed asset turnover ratio under the FIFO and the LIFO methods of inventory valuation.

A. The Fixed asset turnover ratio is lower under FIFO.

B. The Fixed asset turnover ratio is higher under FIFO.

C. The Fixed asset turnover ratio is the same under FIFO and LIFO.

Q.2196 Estimate the impact on the debt-to-equity ratio due to a conversion from the LIFO inventory system to the FIFO inventory system in a period of rising prices.

A. The Debt-to-equity ratio increases under FIFO.

B. The Debt-to-equity ratio decreases under FIFO.

C. The Debt-to-equity ratio remains unchanged under FIFO.

Q.3783 An artifact collecting company wrote down the value of a pottery vessel from $ 220,000 to $100,000. It later discovered that the pottery vessel was supposed to be valued at $ 1,000,000. Determine the amount reported on the balance sheet if the company uses IFRS to report its financial statements?

A. $100,000

B. $220,000

C. $1,000,000

Q.3784 Consider the table below.

	Purchases	Sales
1st January	4,000 units at $5 per unit	
2nd March		3,700 units at $10 per unit
20th March	3,000 units at $10 per unit	
28th March		2,700 units at $15 per unit
Total	7,000 units	6,400 units

Calculate the company's cost of sales on 28th March if it uses the perpetual weighted average cost method.

A. $18,500

B. $25, 785

C. $40,500

Q.3786 The table below summarizes the purchases and sales of a company during the second quarter of its current financial year.

1 May	Purchased 43,000 units at $ 15 per unit
7 May	Sold 30,000 units at $ 23 per unit
15 June	Purchased 47,000 units at $ 17 per unit
3 July	Sold 40,000 units at $ 25 per unit

Based on the table above, determine the difference between the company's ending inventory under FIFO and perpetual LIFO.

A. $314,000

B. $26,000

C. $340,000

Q.3787 ABC Company values its inventory using the LIFO method. In its 2018 financial statement, ABC company had inventory worth $500 Million. The company's LIFO reserve for 2018 is 80 million. Suppose the company had used FIFO instead of LIFO, its reported inventory would have been *closest to*:

A. $420,000,000

B. $500,000,000

C. $580,000,000

Q.4785 Under IFRS, when the net realizable value of inventory increases after a previous write-down, the reversal is limited to what amount?

A. The amount of the original write-down.

B. There is no limit to the amount of the reversal.

C. The difference between the current market value and the previous carrying amount.

Q.4786 Which of the following best describes the measurement of inventory under US GAAP after December 15, 2016, for companies not using the LIFO or retail inventory methods?

A. Lower of cost or historical cost

B. Lower of cost or net realizable value

C. Lower of cost or market, where market is the current replacement cost

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Q.4787 DarkMatter Technologies, a hypothetical company, uses the FIFO inventory method and prepares its financial statements in accordance with IFRS. In 2019, they reported a significant decline in market demand for their products, leading to substantial inventory write-downs. In 2020, market conditions improved, leading to a partial recovery of the previously written-down inventory values. How should DarkMatter Technologies reflect this recovery in their 2020 financial statements?

A. Recognize the recovery as revenue in the income statement.

B. No entry is required as the recovery of inventory values is not recognized under IFRS.

C. Reverse the write-down up to the amount of the original write-down as a reduction in the cost of goods sold.

Q.4788 During periods of deflation, how does the choice between FIFO and LIFO affect the company's net income, assuming a consistent decrease in inventory unit costs and constant sales prices?

A. FIFO results in higher net income than LIFO.

B. LIFO results in higher net income than FIFO.

C. FIFO and LIFO result in the same net income.

Q.4789 In comparing companies that use FIFO and LIFO during a period of inflation, which statement is most accurate regarding their reported net income, and what implications does this have for analysts?

A. Both companies will report similar net income.

B. The company using LIFO will report higher net income, reflecting lower historical costs in COGS.

C. The company using FIFO will report higher net income, reflecting current lower costs in COGS.

Q.4790 When analyzing a company's inventory disclosures under IFRS, which aspect of the disclosures would provide the most direct insight into potential issues with inventory obsolescence?

A. The total carrying amount of inventories.

B. The amount of any reversal of any write-down recognized in the period.

C. The carrying amount of inventories pledged as security for liabilities.

Q.4791 In a manufacturing company, a consistently large proportion of inventory classified as work in progress (WIP) could *most likely* signal which of the following potential issues?

A. Strong demand for the company's products.

B. Bottlenecks or inefficiencies in the production process.

C. High efficiency in converting raw materials to finished goods.

Q.4792 Under IFRS, which of the following disclosures would *most likely* be crucial for understanding the reversibility of inventory write-downs, and why is this important for analysts?

A. The total carrying amount of inventories.

B. The carrying amount of inventories pledged as security for liabilities.

C. The circumstances that led to the reversal of any inventory write-downs.

Q.4793 Which of the following is a potential red flag for analysts if they observe a company with an exceptionally high inventory turnover ratio combined with a significant increase in inventory write-downs?

A. Efficient inventory management and strong sales.

B. Reflects a strategy of maintaining low inventory levels to minimize storage costs.

C. Potential manipulation of inventory values and overstatement of financial performance.

Learning Module 7: Analysis of Long Term Assets

Q.531 Arithma Co. exchanged a spare forklift purchased one year ago in return for an ambulance to be used in its factory. The company reports under US GAAP and does not have any idea of the fair value of the ambulance. Arithma Co. should *most likely* record the value of the ambulance in its financial statements as:

A. The fair value of the forklift.

B. The historical cost of the forklift.

C. The carrying value of the forklift.

Q.2251 The capitalization of interests accruing during the construction of an asset is allowed in which of the following?

A. IFRS.

B. US GAAP.

C. IFRS & US GAAP.

Q.2253 Which of the following is *most likely* an unidentifiable intangible asset?

A. Patent.

B. Goodwill.

C. Copyrights.

Q.2254 A German tech firm reporting under IFRS has incurred the following expenditures during the year 2016:

SG&A	$1,200
Research Cost	$400
Depreciation	$300
Interest Expense	$600
Development Cost	$800

Given the information presented and all IFRS criteria are met, the total operating expenses of the firm is *closest to*:

A. $1,900.

B. $2,700.

C. $3,300.

Q.2255 Smart-Sun Corp. purchased a solar panel plant from Solar World Inc. in a business transaction of $700 million. Assuming that the fair value of the identifiable assets related to the solar panel plant of Solar World is $1,500 million with liabilities of $830 million, the goodwill to be reported on Smart Sun's balance sheet is *closest to*:

A. $30 million.

B. $130 million.

C. $800 million.

Q.2256 If a hypothetical firm capitalizes its expenditures rather than expensing them, then determine the *most likely* impact on its net income in subsequent years compared to a firm that expenses out its expenditures.

A. The capitalizing firm will have a lower net income in subsequent years.

B. The capitalizing firm will have a higher net income in subsequent years.

C. The capitalizing firm will have an equal net income as the expensing firm in subsequent years.

Q.2263 Identify the *most likely* effects on ratios of a firm that capitalizes the cost of assets.

A. Higher Interest coverage, higher Equity and lower Income variability

B. Lower Interest coverage, higher Equity and lower Income variability

C. Higher Interest coverage, lower Equity and lower Income variability

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Q.2264 Which of the following is *least likely* a criterion of identifiable intangible assets under IFRS?

A. The assets should provide future economic benefits.

B. The firm should have control and legal rights over the asset.

C. The assets should be capable of being inseparable from the firm.

Q.2275 York Corp. purchased a plant for $45 million with a useful life of 8 years and a salvage value of $5 million. At the beginning of the 4th year, York decided to decrease the salvage value to $3.2 million. The depreciation expense for the 4th year if York uses the Straight-line method of depreciation is *closest to*:

A. $4.36 million.

B. $5.00 million.

C. $5.36 million.

Q.2276 Intangible assets with finite useful lives mostly differ from intangible assets with infinite useful lives with respect to the accounting treatment of:

A. Costs.

B. Revaluation.

C. Amortization.

Q.2279 An accountant is analyzing the accounts of a Belgian chocolate firm. The information regarding the cost of its ice cream plant is given in the following table. Calculate the amount of impairment loss if the Belgian firm reports under IFRS.

Book Value of Plant	$400,000
Acc. Depreciation	$25,000
Fair Value	$370,000
Selling Cost	$15,000
Value in Use	$360,000
Expected Future Cash Flow	$350,000

A. $15,000

B. $25,000

C. $40,000

Q.2280 An accountant is analyzing the financial reports of an American chocolate firm. The information regarding the cost of its ice cream plant is given in the following table:

Book Value of Plant	$400,000
Acc. Depreciation	$25,000
Fair Value	$370,000
Selling Cost	$15,000
Value in Use	$360,000
Expected Future Cash Flow	$350,000

If the American firm reports under US GAAP, the new balance sheet value of the asset is *closest to*:

A. $350,000.

B. $360,000.

C. $370,000.

Q.2281 An accountant is analyzing the accounts of a Belgian chocolate firm. The information regarding the cost of its ice cream plant is given in the following table. Assuming that the firm abandoned the plant, calculate the value of the loss recognized in the Income statement.

Book Value of Plant	$400,000
Acc. Depreciation	$25,000
Fair Value	$370,000
Selling Cost	$15,000
Value in Use	$360,000
Expected Future Cash Flow	$350,000

A. $370,000

B. $375,000

C. $400,000

Q.2282 Which of the following is *most likely* an impact of impairment? If an asset is impaired the:

A. return on asset, return on equity, and profit margins decrease.

B. return on asset and return on equity increase, but the profit margins decrease.

C. return on asset ratio and profit margins decrease, but the return on equity increases.

Q.2283 Which of the following is the *most likely* impact of an impairment loss on a firm's cash flow statement?

A. Total cash flow increases.

B. Total cash flow decreases.

C. Total cash flow remains unchanged.

Q.2284 An asset has a gross book value of $60 million and accumulated depreciation of $22 million. Calculate the approximate remaining life of the asset if the depreciation expense is $3.8 million.

A. 6 years.

B. 10 years.

C. 16 years.

Q.3842 A local investor has recently acquired a franchise of an online ticketing website, whose components and useful lives are given in the following table:

Assets	Value	Useful life
Patent	$25,000	20
Copyrights	$12,000	12
Trademark	$8,800	5
Goodwill	$7,000	–
Physical servers	$15,000	15

Assuming that the salvage value of the patent is $3,000 and that the trademark can be renewed every 5th year for $1,500, the total amortization expense for the first year using the straight-line method is *closest to:*

A. 2100

B. 3860

C. 4860

Q.3845 A firm's financial statements show that the value of plant, property & equipment is $4.5 million, land is $2.5 million, and accumulated depreciation is $1.8 million. If the depreciation expense for the year is $0.15 million, then the average age of the firm's PPE is *closest to:*

A. 12 years.

B. 18 years.

C. 34.67 years.

Q.4815 Which of the following is *least likely* a criterion for an identifiable intangible asset under IFRS? The asset must:

A. be separable from the company.

B. arise from contractual or legal rights.

C. be developed through internal research and development.

Q.4816 Which of the following is *least likely* a criterion for recognizing an internally developed intangible asset under IFRS?

A. The asset must demonstrate technical feasibility.

B. The asset must have a cost that cannot be reliably measured.

C. The asset must be expected to provide future economic benefits.

Q.4817 Which of the following is *least likely* considered an identifiable intangible asset under IFRS?

A. A trademark acquired from another company

B. Goodwill arising from the acquisition of a company.

C. A patent developed internally and meeting capitalization criteria.

Q.4818 Which of the following statements is *least likely* true regarding the treatment of intangible assets under IFRS and US GAAP?

A. Both IFRS and US GAAP expense research costs when incurred.

B. Under IFRS, development costs can be capitalized if certain criteria are met, whereas under US GAAP, all development costs are expensed.

C. Under US GAAP, software development costs for internal use can be capitalized once feasibility is established, while under IFRS, they are expensed.

Q.4819 Which of the following is *least likely* a factor that impacts the financial statement presentation of intangible assets?

A. The physical substance of the intangible asset.

B. The expected useful life of the intangible asset.

C. The method of acquisition of the intangible asset.

Q.4820 Which of the following is *least likely* to be a correct statement about the accounting treatment for intangible assets acquired in a business combination under IFRS?

A. Any excess amount over the identifiable net assets' value is recorded as goodwill.

B. All intangible assets acquired in a business combination are expensed immediately.

C. The acquiring company must allocate the purchase price to the acquired assets and assumed liabilities at their fair values.

Q.4821 Which of the following is *most likely* a criterion for recognizing internally developed software costs as intangible assets under US GAAP?

A. The software must be intended for internal use.

B. The costs must be incurred during the research phase of the project.

C. The costs must be incurred after the project reaches technological feasibility.

Q.4822 Which of the following is *least likely* a criterion for recognizing an impairment loss under IFRS?

A. The carrying amount of the asset exceeds its recoverable amount.

B. The asset must be classified as held for sale to recognize an impairment loss.

C. The recoverable amount is the higher of fair value, less costs to sell, and value in use.

Q.4824 Which of the following is *least likely* a reason for the derecognition of a long-lived asset? The asset is:

A. sold.

B. abandoned.

C. fully depreciated.

Q.4825 Which of the following is *least likely* true about the treatment of intangible assets with finite lives? They are:

A. tested for impairment annually.

B. amortized over their useful lives.

C. tested for impairment when significant events indicate potential impairment.

Q.4826 Arbor Industries, a hypothetical company, is assessing the impairment of a finite-life intangible asset with the following details:

Parameter	Value
Carrying Amount	USD 500,000
Present Value of Expected Future Cash Flows	USD 400,000
Fair Value if Sold	USD 450,000
Undiscounted future cash flows	USD 440,000
Costs to Sell	USD 50,000

The impairment loss under IFRS and US GAAP is closest to:

A.

IFRS	US GAAP
USD 100,000	USD 100,000

B.

IFRS	US GAAP
USD 50,000	USD 100,000

C.

IFRS	US GAAP
USD 100,000	USD 50,000

Q.4827 Which of the following is *most likely* a key disclosure requirement for intangible assets with indefinite useful lives under IFRS?

A. The amortization expense for the period.

B. The residual value of the intangible asset.

C. The rationale for classifying the useful life as indefinite.

Q.4828 Assuming that the historical cost of PPE for companies ABC and XYZ are the same, and the companies use the same depreciation method, consider the following information on their PPE:

Estimates	Company ABC	Company XYZ
Estimated total useful life (years)	10.4	21.3
Estimated age (years)	5.7	11.0
Estimated remaining life (years)	4.7	9.4

Which of the following statements is the *least accurate*?

A. The estimates suggest over 50% of each company's useful life has passed.

B. The estimated age of the equipment suggests that company ABC has newer PPE than company XYZ.

C. The estimated total useful life suggests that company XYZ depreciates PPE over a much shorter period than company ABC.

Q.4829 XYZ company follows a straight-line depreciation method and reports the information below for its production machines:

Parameter	Value
Annual depreciation expense	$50,000
Accumulated depreciation expense	$200,000
Carrying value	$650,000

The machines' estimated remaining useful life, and the time the company held them are *closest to:*

A. The remaining useful life is five years, and the company has held the machines for three years.

B. The remaining useful life is eight years, and the company has held the machines for four years.

C. The remaining useful life is 13 years, and the company has held the machines for four years.

Q.4830 Under IFRS, which of the following disclosures is *least likely* required for each class of property, plant, and equipment?

A. The basis of measurement.

B. The expected residual value.

C. The depreciation methods used.

Q.4831 Which of the following is *least likely* to be disclosed under US GAAP for intangible assets?

A. The fair value of intangible assets with indefinite lives.

B. The expected amortization expense for the next five fiscal years.

C. The gross carrying amounts and accumulated amortization by major class.

Q.4832 A company discloses the following information for its intangible assets:

Parameter	Value
Gross carrying amount	$\$1,000,000$
Accumulated amortization	$\$400,000$
Annual amortization expense	$\$100,000$

The average remaining useful life of the intangible assets is *closest to:*

A. 3 years.

B. 6 years.

C. 10 years.

Q.4833 A company follows a straight-line depreciation method and reports the following for its equipment:

Parameter	Value
Historical cost	$\$500,000$
Annual depreciation expense	$\$50,000$
Accumulated depreciation	$\$200,000$

The total useful life, the age of the equipment, and the remaining useful life are *closest to*:

A.

Total useful life	Age of the equipment	Remaining useful life
10 years	4 years	6 years

B.

Total useful life	Age of the equipment	Remaining useful life
10 years	5 years	5 years

C.

Total useful life	Age of the equipment	Remaining useful life
12 years	4 years	8 years

Q.4834 Which of the following is *most likely* to be disclosed for intangible assets with finite useful lives under IFRS?

A. The method used to estimate the residual value.

B. The expected increase in future revenue from the assets.

C. The carrying amount at the beginning and end of the period.

Q.4835 Which of the following is *most likely* required to be disclosed for intangible assets with indefinite useful lives under IFRS, assuming the revaluation model is not used?

A. The estimated fair value of the assets.

B. The rationale for classifying the useful life as indefinite.

C. The estimated amortization expense over the next five years.

Learning Module 8: Topics in Long-Term Liabilities and Equity

Q.288 A hypothetical high-tech industry is composed of three companies. Some notes regarding the three companies are given below:
Company A: Low leverage, low coverage ratio
Company B: Low leverage, high coverage ratio
Company C: High leverage, high coverage ratio

Taking into account both ratios, the most solvent company is *most likely*:

A. Company A.

B. Company B.

C. Company C.

Q.545 Which of the following cases would *most likely* result in the creation of a net pension asset?

A. Carrying value of the pension trust's assets: $240 million
Fair value of the pension trust's assets: $167 million
Present value of pension obligations: $196 million

B. Carrying value of the pension trust's assets: $240 million
Fair value of the pension trust's assets: $267 million
Present value of pension obligations: $196 million

C. Carrying value of the pension trust's assets: $240 million
Fair value of the pension trust's assets: $267 million
Present value of pension obligations: $296 million

Q.547 According to US GAAP, interests incurred on a capital lease are *most likely* classified under:

A. cash flow from financing activities.

B. cash flow from operating activities.

C. either cash flow from operating or financing activities.

Q.548 Company A gives a car on a 'sales-type lease' to Company B. Company A is involved in the sale and purchase of furniture. Under which would the lease principal be recognized by company A under US GAAP?

A. Cash flow from investing activities.

B. Cash flow from operating activities.

C. Either operating or investing (management's choice).

Q.2353 A lumber company leased lumber cutting equipment for five years with an end-yearly payment of $20,000 at an interest rate of 7%. What are the nature and the beginning value of the lease that the firm will report if the equipment's economic life is only five years?

A. The firm will report the lease as an operating lease with no liability on its balance sheet.

B. The firm will report the lease as a finance lease with a beginning lease liability of $67,744.

C. The firm will report the lease as a finance lease with a beginning lease liability of $82,004.

Q.2354 A lumber company leased lumber cutting equipment for 5 years with the annual payment of $20,000 at the interest rate of 7%. Determine the amount of interest or rent expense that the firm will report in the first year if the leased asset is transferred to the lumber company at the end of the lease.

A. Rent expense of $3,674.

B. Interest expense $5,740.

C. Interest expense of $4,752.

Q.2360 A plastic moulding company promised its employee five years ago that it would provide specific benefits upon retirement. . Today, the pension fund's assets are greater than the pension obligations. Determine the *most appropriate* status of the fund.

A. Overfunded defined benefits pension plan.

B. Overfunded defined contribution pension plan.

C. Underfunded defined contribution pension plan.

Q.2361 Under IFRS, the actuarial gains and losses due to remeasurement are reported under:

A. the income statement.

B. liabilities on the balance sheet.

C. other comprehensive income on the balance sheet.

Q.4850 Which of the following is *least likely* a criterion for a contract to be classified as a lease under IFRS?

A. Identify a specific underlying asset.

B. The asset must be separable from the company.

C. Give the customer the ability to direct how the asset is used.

Q.4851 Which of the following is *least likely* to be considered a benefit of leasing an asset compared to purchasing it?

A. Lower upfront cash outflow.

B. Lower overall cost of financing.

C. Reduced risk of obsolescence.

Q.4852 Which of the following statements is *most accurate* regarding the classification of leases under IFRS?

A. A lease term covering a minor part of the asset's useful life is classified as a finance lease.

B. The present value of the lease payments equaling the asset's fair value classifies the lease as an operating lease.

C. A lease transferring ownership to the lessee by the end of the lease term is classified as a finance lease.

Q.4853 For a lease to be classified as a finance lease under US GAAP, which of the following criteria must be met?

A. The lease term must cover a minor part of the asset's useful life.

B. The present value of the lease payments must be insignificant compared to the asset's fair value.

C. The lease must transfer ownership of the underlying asset to the lessee by the end of the lease term.

Q.4854 Which of the following statements about lessor accounting under IFRS is *most accurate*?

A. In an operating lease, the lessor recognizes a lease receivable.

B. In a finance lease, the lessor continues to recognize the leased asset on the balance sheet.

C. In a finance lease, the lessor recognizes interest income based on the lease receivable.

Q.4855 Under US GAAP, which of the following *best* describes the accounting treatment for a lessee in an operating lease?

A. The lessee records a lease liability and a right-of-use asset.

B. The lessee recognizes interest expense and amortization expense separately.

C. The entire lease payment is reported as a financing activity in the statement of cash flows.

Q.4856 ABC Ltd. enters into a lease agreement with an annual lease payment of $50,000, a lease term of 3 years, and a discount rate of 5%. The lease liability recorded at the inception of the lease is *closest to:*

A. $135,750

B. $136,160

C. $137,450

Q.4857 In the context of lease accounting under US GAAP, which of the following is *least likely* to be considered a finance lease criterion?

A. The lease term covers a significant portion of the asset's remaining economic life.

B. The asset can be used by the lessor after the lease term ends without significant modification.

C. The present value of the lease payments equals or exceeds substantially the fair value of the asset.

Q.4858 XYZ Corporation enters into a lease agreement with DEF Leasing for a piece of equipment. The terms of the lease are as follows: Annual lease payments of $150,000, payable at the end of each year for five years.

- The interest rate implicit in the lease is 7%.
- At the end of the lease term, the equipment will be returned to DEF Leasing.
- The lease does not include a purchase option.
- The equipment has an estimated useful life of eight years.
- The fair value of the equipment at the inception of the lease is $620,000.

Assuming that the corporation reports under IFRS, determine whether this lease should be classified as a finance lease or an operating lease and calculate the impact on XYZ Corporation's balance sheet at the inception of the lease.

A. Finance lease, recognize a lease liability only.

B. Operating lease, recognize lease expense only.

C. Finance lease, recognize a right-of-use asset and a lease liability.

Q.4859 Which of the following statements is *most likely* correct regarding the financial reporting of defined benefit pension plans under IFRS?

A. The service cost component includes interest income on plan assets.

B. Actuarial gains and losses are recognized as pension expenses over time.

C. The net pension asset or liability changes have three components recognized on the income statement.

Q.4860 Which of the following is *least likely* a component of the pension expense recognized on the income statement under US GAAP?

A. Actuarial gains and losses.

B. Service cost for the period.

C. Interest expense on the pension obligation.

Q.4861 Which of the following *best* describes the accounting treatment for defined contribution plans?

A. The employer records a liability for the estimated future pension benefits.

B. The employer's obligation is limited to the contributions it has agreed to make.

C. The employer must make assumptions about future salary levels and years of service.

Q.4862 Which of the following is *most likely* true regarding share-based compensation?

A. The compensation expense for stock options is recognized immediately at the grant date.

B. The compensation expense for stock options is based on the fair value at the grant date.

C. The compensation expense for stock options is based on the market price at the exercise date.

Q.4863 Which of the following statements about defined benefit pension plans under IFRS is *most accurate*?

A. Actuarial gains and losses are amortized into profit or loss over time.

B. Net interest expense or income is recognized in other comprehensive income.

C. Service costs and net interest expense are recognized as pension expense on the income statement.

Q.4864 Which of the following statements is *most accurate* regarding share-based compensation under IFRS and US GAAP?

A. Changes in stock price after the grant date affect the compensation expense.

B. Companies are required to use the Black-Scholes model for valuing stock options.

C. The fair value of share-based compensation is estimated at the grant date and recognized over the vesting period.

Q.4865 Which of the following is *most likely* a disadvantage of share-based compensation?

A. It requires a significant cash outlay.

B. It can lead to excessive risk-taking by managers.

C. It does not align employee interests with those of shareholders.

Q.4866 Which of the following *best* describes the accounting treatment for restricted stock grants? The compensation expense is:

A. recognized immediately on the grant date.

B. spread over the employee’s service period.

C. based on the market value at the exercise date.

Q.4867 Which of the following components of a defined benefit pension plan is *most likely* recognized in other comprehensive income under IFRS?

A. Service cost.

B. Net interest expense.

C. Actuarial gains and losses.

Q.4868 Under US GAAP, which of the following components of a defined benefit pension plan is amortized into pension expense over time?

A. Service cost

B. Interest expense

C. Past service costs

Q.4869 Which of the following statements *best* describes the treatment of stock appreciation rights (SARs)?

A. SARs dilute existing shareholders’ ownership.

B. SARs are a form of cash-settled share-based compensation.

C. SARs require employees to hold the shares to benefit from share price appreciation.

Q.4870 Under IFRS 16, which of the following must be disclosed by lessees to provide a comprehensive understanding of their lease obligations?

A. The fair value of right-of-use assets at the reporting date.

B. The total expected future lease payments for the next ten years.

C. The reconciliation of opening and closing balances of lease liabilities.

Q.4871 In the context of IFRS 16, which of the following would *most likely* require significant judgment and estimation by the lessee?

A. Determining the discount rate for lease liabilities.

B. Reporting the total lease payments made during the period.

C. Calculating the depreciation expense on right-of-use assets.

Q.4872 Which of the following *best* describes the required disclosure for share-based compensation under IFRS 2 in terms of valuation methods?

A. The company must disclose the expected future value of the shares.

B. The company must disclose the market price of the shares at the reporting date.

C. The company must disclose the valuation model used to estimate the fair value of options granted.

Learning Module 9: Analysis of Income Taxes

Q.282 Unused tax losses expected to be used in future periods will:

A. increase deferred tax assets.

B. increase deferred tax liabilities.

C. have no impact on tax assets nor liabilities.

Q.284 Deferred tax liabilities (DTL) *mostly* arise when:

A. the income tax expense is the same as the payable taxes.

B. the income tax expense is temporarily smaller than the payable taxes.

C. the income tax expense is temporarily greater than the payable taxes.

Q.285 A company has the following:

Income Tax Expense	$60,000
Change in Deferred Tax Assets	+$2,500
Change in Deferred Tax Liabilities	+$3,000

What is the company's income tax payable?

A. $59,500

B. $60,000

C. $60,500

Q.535 Which of the following may *least likely* result in a change in the carrying value of the deferred tax?

A. Increase in COGS.

B. A change in the tax rate.

C. A redetermination of recoverability of the deferred tax asset.

Q.541 A company has net deferred tax assets amounting to $2,250,000. Which of the following components of the financial statements would benefit from an increase in the statutory tax rate?

A. The income statement will benefit, but not the balance sheet.

B. The balance sheet will benefit, but not the income statement.

C. Both the income statement and the balance sheet will benefit.

Q.542 What would be the result if accounting standards require the capitalization of an expenditure, whereas income tax laws require recording it as an expense?

A. Deferred tax asset.

B. Deferred tax liability.

C. No deferred tax asset or liability.

Q.2286 The tax-related expense that is recognized in a firm's income statement is *most likely* known as:

A. Tax base.

B. Tax payable.

C. Tax expense.

Q.2288 Which of the following is *most likely* the definition of a deferred tax liability? A balance sheet account that results in the excess of:

A. tax payable over tax expense that a firm is liable to pay in the future.

B. tax expense over tax payable that a firm is liable to pay in the future.

C. tax expense over tax payable that a firm is expected to receive in the future.

Q.2290 Identify the condition that will *most likely* create a deferred tax liability (DTL).

A. Revenue is recognized in the tax return for taxable income before it is recognized in the income statement.

B. Expenses or tax-deductible charges are recognized for tax purposes before they are deducted from the income statement.

C. Expenses or tax-deductible charges are recognized in the income statement before they are deducted from taxable income for tax purposes.

Q.2293 A firm uses straight-line depreciation in its income statement for accounting purposes and uses double-declining depreciation for tax purposes. Determine the *most likely* result due to the difference in depreciation methods.

A. A deferred tax asset is created.

B. A deferred tax liability is created.

C. Since the differences are in depreciation methods, no deferred tax assets or deferred tax liabilities are created.

Q.2295 Lex Corp uses straight-line depreciation to depreciate the $550,000 cost of one of its assets for tax purposes. For reporting purposes, Lex Corp depreciates the same asset using the accelerated depreciation method. Calculate the tax base of the asset for the first year if its useful life is ten years.

A. $55,000

B. $440,000

C. $495,000

Q.2296 In the income statement, a firm depreciates its assets of $900,000 over five years using the straight-line method. If, for tax reporting purposes, the company depreciates the same asset over ten years using double-declining depreciation, which of the following *best* describes the accounting treatment for the first year?

A. A deferred tax asset of $180,000 is created.

B. A deferred tax liability of $180,000 is created.

C. No deferred tax asset or deferred tax liability is created as there is no difference between tax expense and tax payable.

Q.2297 A textile company in Turkey purchased a T-shirt printing machine for $1,200,000 with a salvage value of $150,000. For reporting purposes, the textile company depreciates the asset over 6 years using the straight-line method and, for tax purposes, the company depreciates the printer over 8 years using accelerated depreciation. Assuming that the tax rate is 40%, and EBITDA is $670,000 each year, which of the following is *most likely* the deferred tax asset or liability to be created in the first year?

A. A deferred tax asset of $40,000 is created.

B. A deferred tax liability of $50,000 is created.

C. A deferred tax liability of $125,000 is created.

Q.2298 A textile company in Turkey purchased a T-shirt printing machine for $1,200,000 with a salvage value of $150,000. For reporting purposes, the textile company depreciates the asset over 6 years using the straight-line method and, for tax purposes, the company depreciates the printer over 8 years using accelerated depreciation. Assuming that the tax rate is 40% and EBIT is $670,000 each year, calculate the tax base at the end of the 3rd year.

A. $506,250

B. $675,000

C. $693,750

Q.2300 A textile company in Turkey purchased a T-shirt printing machine for $1,200,000 with a salvage value of $150,000. For reporting purposes, the textile company depreciates the asset over six years using the straight-line method. For tax purposes, the company depreciates the printer over eight years using accelerated depreciation. Assuming a tax rate of 40% and EBITDA of $670,000 each year, calculate the pre-tax income for the 2nd year.

A. $320,000

B. $445,000

C. $495,000

Q.2301 A textile company in Turkey purchased a T-shirt printing machine for $1,200,000 with a salvage value of $150,000. For reporting purposes, the textile company depreciates the asset over six years using the straight-line method. For tax purposes, the company depreciates the printer over eight years using accelerated depreciation. Assuming a tax rate of 40% and EBITDA of $670,000 each year, the deferred tax asset or deferred tax liability created in the 6th year is *closest to*:

A. a deferred tax asset of $41,500 is created.

B. a deferred tax asset of $71,500 is created.

C. a deferred tax liability of $41,500 is created.

Q.2302 A Mexican supplier of copper sold 200 tons of copper wire for $400,000 on credit. Due to uncertain market conditions, the supplier recorded receivables of $400,000 and $80,000 of allowance for bad debt expenses in its income statements. The tax rules of Mexico do not allow the deduction of bad debt expenses until the creditors default and receivables are deemed worthless. If the tax rate in Mexico is 28%, then the deferred tax asset or liability based on the tax base of receivables is *most likely* a:

A. deferred tax asset (DTA) of $22,400.

B. deferred tax liability (DTL) of $89,600.

C. deferred tax asset (DTA) of $112,000.

Q.2306 The changes in deferred taxes for a company due to a change in tax rate from 45% to 35% in a specific jurisdiction are provided in the following table:

Change DTL	$14,000
Change DTA	$3,500
Tax Payable	$15,000
Pretax Income	$100,000

Given the information, the effective tax rate for the firm is *closest to*:

A. 10.5%.

B. 25.5%.

C. 32.5%.

Q.2307 Which of the following will *most likely* result in a permanent difference between taxable income and pre-tax income?

A. A firm enjoys tax credits on the imports of certain medicines.

B. A firm uses different methods of depreciation for reporting purposes and tax purposes.

C. A firm deducts warranty expenses from its income statement but does not deduct them from its tax statements until the receivables are deemed worthless.

Q.2310 A newly incorporated construction company reported revenue of $690,000, cost of goods sold (COGS) of $550,000, and operating expenses of $210,000. Assuming a tax rate of 25%, the firm's should *most likely* report a:

A. deferred tax assets of $17,500.

B. deferred tax assets of $70,000.

C. deferred tax liabilities of $17,500.

Q.2314 A highly cyclical British company reports warranty expenses of $30,000 in anticipation every year. However, during the current year, none of the customers claimed their 5-year warranties. Assuming a tax rate of 20%, the tax base of the warranty expense for the year is *closest to*:

A. $0

B. $6,000

C. $30,000

Q.2316 ABC Company had a loss of $100,000 in 2015. In 2016, the firm managed to earn a taxable income of $180,000. If the tax rate is 26%, then calculate the firm's income tax expense for 2016.

A. $20,800

B. $26,000

C. $46,800

Q.2317 Assuming inflationary environment, which of the following accounting activities will *most likely* result in a deferred tax liability?

A. A firm receives payments in advance for goods to be delivered in two years.

B. A firm expenses software development costs in its income statement but capitalizes software development costs for tax purposes.

C. A firm uses the last-in, first-out (LIFO) inventory valuation method for tax purposes and the first-in, first-out (FIFO) method for reporting purposes.

Q.2318 Which of the following is *least likely* an effect of an increase in tax rates?

A. An increase in tax rates will increase Tax payable.

B. An increase in tax rates will decrease the EBIT margin.

C. An increase in tax rates will increase Deferred Tax Liabilities.

Q.2324 Which of the following is the *most appropriate* definition of a deductible temporary difference? It is a temporary difference that:

A. results in an expected increase in future taxable income.

B. results in an expected decrease in future taxable income.

C. will not increase nor decrease expected future taxable income.

Q.3792 The following Exhibit will be used for questions 2 and 3.

EBIT	Financial Year 2019
USA	$73, 456
Foreign	$92, 345
Provisions for Income Taxes	
Current Income Taxes	
Federal	$5, 610
Foreign	$3, 424
Deferred Income Taxes	
Federal	($2345)
Foreign	$340

The provision for income taxes recorded for 2019 was *closest to*:

A. $2,005

B. $7,029

C. $9,034

Q.3793 Consider the following financial information of a company:

EBIT	Financial Year 2019
USA	$73,456
Foreign	$92,345
Provisions for Income Taxes	
Current Income Taxes	
Federal	$5,610
Foreign	$3,424
Deferred Income Taxes	
Federal	($2345)
Foreign	$340

The company's effective tax rate for the year 2019 is *closest to:*

A. 4.08%

B. 4.24%

C. 4.44%

Q.3854 Lex Corp. uses straight-line depreciation to depreciate the $550,000 cost of one of its assets for tax purposes. For reporting purposes, Lex Corp. depreciates the same asset using the accelerated depreciation method. If the asset's useful life is ten years, the tax base of the asset for the first year is *closest to*:

A. $55,000

B. $440,000

C. $495,000

Q.4897 Which of the following *best* describes a deductible temporary difference?

A. It increases taxable income in future periods.

B. It leads to the recognition of a deferred tax asset.

C. It occurs when the carrying amount of an asset exceeds its tax base.

Q.4898 Which of the following is an example of a permanent difference between accounting profit and taxable income?

A. Tax loss carryforwards.

B. Accelerated depreciation for tax purposes.

C. Penalties and fines that are not tax-deductible.

Q.4899 Which of the following *best* explains how tax loss carryforwards affect the financial statements of a company? They:

A. create a deferred tax asset.

B. increase current tax expense.

C. result in a permanent difference.

Q.4900 Which of the following *best* explains why deferred tax assets and liabilities are recognized on the balance sheet?

A. To reflect differences in cash flows.

B. To match tax expense with the accounting profit in the period it is earned.

C. To account for permanent differences between accounting profit and taxable income.

Q.4901 In the current year, Michaels Company has a carrying amount of USD3,500,000 and a tax base of USD5,000,000 for accounts receivable. Michaels will *most likely* recognize:

A. a deferred tax asset.

B. a deferred tax liability.

C. no deferred tax asset or liability.

Q.4902 Consider the following selected data below for a Company.

Year)	Year 3	Year 2	Year 1
Equipment value for accounting purposes (carrying amount)	7,000	8,000	9,000
Equipment value for tax purposes (tax base)	5,714	7,143	8,571

Assuming a 35 percent tax rate, the company's deferred tax liability in Year 3 is *closest to*:

A. USD450.

B. USD750.

C. USD900.

Q.4903 Which of the following statements is the *least accurate*?

A. Deferred tax assets and liabilities are recalculated at the end of each financial year.

B. Deferred tax assets and liabilities are based on permanent differences, which result in a company paying an excess or deficit amount for taxes.

C. A deferred tax asset or liability will not be created if there is no guarantee that future economic benefits will be derived from a temporary difference.

Q.4904 Which of the following *best* explains how does a reduction in the statutory tax rate affect the value of deferred tax assets and liabilities? The value of deferred tax:

A. assets decreases.

B. liabilities increases.

C. assets increases

Q.4905 Which of the following tax rates is most relevant for analyzing a company's future cash flows?

A. Cash tax rate.

B. Effective tax rate.

C. Statutory tax rate.

Q.4906 Consider the following information for a company operating in three countries.

Country	Pre-tax Income (USD)	Statutory Tax Rate
Country X	300,000	25%
Country Y	400,000	20%
Country Z	500,000	30%

The company's overall effective tax rate is *closest to*:

A. 25.4%

B. 26.5%

C. 27.0%

Q.4907 AlphaTech, a technology firm, operates in countries X and Y. Table 1 contains information on both countries' tax rates. In year one, both countries' earnings before tax (EBT) are the same

	Country X	Country Y	Total
EBT	300	300	600
Statutory tax rate	20%	35%	27.5%
Tax	60	105	165
Net profit	240	195	435

If earnings before tax for Country X increase by 15 percent per year while earnings before tax for Country Y remain the same for the next three years, the overall effective tax rate will:

A. remain the same.

B. gradually decline.

C. gradually increase.

Q.4908 What is *most likely* indicated by a significant reduction in the valuation allowance for deferred tax assets?

A. An increase in deferred tax liabilities.

B. Increased likelihood of future profitability.

C. Decreased likelihood of future profitability.

Learning Module 10: Financial Reporting Quality

Q.292 You see that a large company is recording all of its finance (capital) leases as operating leases. This company is trying to reduce its:

A. leverage.

B. expenses.

C. capital expenditure.

Q.557 Which of the following is *most likely* applicable for a 'bill and hold' transaction?

A. The inventory appears at its original value.

B. The sale is not recognized until the product is delivered.

C. The sale is recorded but the inventory value remains with the seller.

Q.561 Which of the following inventory valuation methods result in higher profits in the case of rising prices?

A. FIFO.

B. LIFO.

C. Weighted average.

Q.564 Which of the following factors is *least likely* conducive to the issuance of low-quality financial reports?

A. Weak internal controls.

B. Auditing requirements.

C. Less transparent financial disclosures.

Q.566 Financial reporting quality is the same as:

A. Earnings quality.

B. earnings sustainability.

C. Quality of information reported.

Q.2184 After attending a seminar on the subject of inventory management, a student has summarized some core points regarding the three main approaches. Which of the following is the *least accurate* statement?
Statement I. During periods of inflation, the use of FIFO will result in the lowest estimate of the cost of goods sold among the three approaches and the highest net income.
Statement II. During periods of deflation, the use of LIFO will result in the highest estimate of the cost of goods sold among the three approaches and the lowest net income.
Statement III. During periods of inflation, the use of LIFO will result in the highest estimate of the cost of goods sold among the three approaches and the lowest net income.

A. Statement I

B. Statement II

C. Statement III

Q.2365 Which of the following is the *most accurate* statement regarding the quality of financial reporting and financial earnings?

A. The quality of financial reporting is judged by its profitability, while the quality of financial earnings is judged by its decision-usefulness.

B. The quality of financial reporting is judged by its sustainability, while the quality of financial earnings is judged by relevance and faithful representation.

C. The quality of financial reporting is judged by its adherence to generally accepted accounting principles (GAAP), while the quality of financial earnings is judged by its sustainability.

Q.2366 Firm A, Firm B, and Firm C are market leaders in the glass-manufacturing industry. Part of the financial statements for the year 2016 is given in the following table:

	Firm A	Firm B	Firm C
Gross Profit	$1,200,000	$1,000,000	$1,600,000
Operating Profit	$700,000	$760,000	$500,000
Gain on Sale of Assets	$240,000	$0	$0
EBIT	$940,000	$760,000	$500,000
Interest	($250,000)	($200,000)	($510,000)
Net Income	$690,000	$460,000	($10,000)

The firm that has the highest quality of earnings for the year 2016 is:

A. Firm A.

B. Firm B.

C. Firm C.

Q.2368 Quick-Fit is a chain of fitness centers across Malta that does not comply with generally accepted financial reporting standards from that jurisdiction, but it claims to follow the Accepted Accounting Principles of Turkey. Due to the inefficiency and ignorance of the government, it is a standard practice in Malta not to adhere to local reporting standards. However, the firm is consistently profitable as it has a monopoly in many remote areas of Malta. The firm has consistently earned profit margins of 8% over the last 15 years. Based on the provided assumptions, which of the following *best* describes the quality of financial reporting and the quality of earnings of Quick Fit?

A. Low financial reporting quality and low quality of earnings.

B. High financial reporting quality and low quality of earnings.

C. Low financial reporting quality and indeterminate quality of earnings.

Q.2369 Which of the following financial reports are considered of the lowest quality in the spectrum of financial reporting quality?

A. Reporting is compliant with GAAP, but earnings quality is low.

B. Reporting is compliant with GAAP, and earnings are sustainable but inadequate.

C. Reporting is not compliant with GAAP, but earnings are based on the firm's actual economic activities.

Q.2370 An analyst came across many doubtful activities while analyzing the firm's financial statements compared to other firms in the same industry. Which of the following accounting choices can *most likely* lead to the conclusion that the firm is engaged in aggressive accounting activities?

A. Using straight-line depreciation.

B. Expensing costs in the current period.

C. Decreasing the useful life of certain assets.

Q.2371 The management's activity of using one set of accounting choices in one period to increase the earning and using the other set of accounting choices to decrease the earning in another period is known as:

A. earnings smoothing.

B. aggressive accounting.

C. low financial reporting quality.

Q.2372 Which of the following accounting treatments *most likely* represents a set of conservative accounting activities?

A. Increasing estimates of salvage value, decreasing accrual of reserves for bad debts, and early recognition of impairments.

B. Using accelerated depreciation, decreasing valuation allowances on deferred tax assets, and expensing current period costs.

C. Early recognition of impairment, increasing valuation allowances on deferred tax assets, and using accelerated depreciation.

Q.2373 Which of the following is *least likely* a motive of managers to make aggressive accounting choices?

A. To exercise employees' put options on the company's shares.

B. To improve future career options by beating a specific benchmark.

C. To report earnings greater than the consensus expectations of analysts.

Q.2374 Two firms in the hypothetical sector of hydro-cars are similar in all aspects but use different accounting practices. Some accounts for the year 2016 are given in the following table:

	Alpha Co.	Gama Co.
Revenue	$5,400,000	$5,400,000
Gross Profit	$2,200,000	$2,200,000
Depreciation Expense	$140,000	$280,000
Bad Debt Expense	$100,000	$210,000
Research Expense	-	$300,000
EBIT	$1,960,000	$1,410,000
Gain on Assets	$130,000	-

Disregarding depreciation expenses, which of the following firm(s) use(s) conservative accounting practices?

A. Only Alpha Co. uses conservative accounting.

B. Only Gama Co. uses conservative accounting.

C. Both Alpha Co. and Gama Co. use conservative accounting.

Q.2375 Alpha Co. and Gama Co. are similar in all aspects but use different accounting practices, as shown in the following table:

	Alpha Co.	Gama Co.
Revenue	$5,400,000	$5,400,000
Gross Profit	$2,200,000	$2,200,000
Depreciation Expense	$140,000	$280,000
Bad Debt Expense	$100,000	$210,000
Research Expense	-	$300,000
EBIT	$1,960,000	$1,410,000
Gain on Assets	$130,000	-

Which of the following firms *most likely* has sustainable earnings?

A. Gama Co.

B. Alpha Co.

C. Gama and Alpha.

Q.2376 Adam Geller is the CFO of Cube Corp. and is also the chairman of the board. The board does not have sufficient control over management because it does not consist of a majority of independent outsiders. Cube's shareholders recently accused the firm of misrepresenting its financial reports.
Which of the following factors is *most likely* responsible for management's action of providing low-quality financial reporting?

A. Motivation.

B. Opportunity.

C. Rationalization.

Q.2377 Akash Prakash is the CEO of Pandora Drum Co., which is headquartered in the middle of the Bermuda Islands. Pandora is currently under a lawsuit related to presenting low-quality financial reports by overestimating the assets of Pandora by more than 500%. During a recent conference call, Prakash stated ''I thought that another company operating in the Bermuda Islands might be interest in acquiring Pandora. Therefore, it was important for Pandora to over-estimate its assets to make the firm look expensive to the acquirer. It is common in the Bermuda Islands to overestimate its assets. All of the firms do it.''
The main cause for Pandora's low-quality reporting is *most likely* related to:

A. motivation.

B. opportunity.

C. rationalization.

Q.2378 Sonic Loop is a startup that focuses on providing private jet experiences at the cost of the commercial airline. Sonic Loop has adopted a unique compensation plan for its senior management, in which 70% of the compensation of senior management depends on the firm's profit margin. Startup Insider, a whistleblower corporate magazine, printed an article in its latest issue, which reveals that the management of Sonic is involved in fraudulent financial reporting. Based on the given case, which of the following factors is *most likely* responsible for Sonic's potential fraudulent financial reporting?

A. Motivation.

B. Opportunity.

C. Rationalization

Q.2382 If a firm that reports under IFRS uses some non-IFRS measures in its financial reports, then the firm is *least likely* required to:

A. define and explain the relevance of the non-IFRS measure in financial reporting.

B. not use the non-IFRS measure if the firm reports its financial reports in compliance with IFRS.

C. reconcile the difference between the non-IFRS measure and the most comparable IFRS measure.

Q.2383 Which of the following is *most appropriate* explanation of ''channel stuffing''? Channel stuffing is:

A. an aggressive revenue recognition strategy in which the firm oversupplies goods to the distribution channel.

B. a conservative revenue recognition strategy in which the firm holds goods and delays the supply of goods to the distribution channel.

C. an aggressive revenue recognition strategy in which the firm increases the supplier's orders and recognizes the expense before the goods are received.

Q.2385 Which of the following statement is *most appropriate* regarding the allowance for uncollectible debt?

A. If a firm increases the probability that the accounts receivable will be collected, it will increase the reserve for uncollectible debt and decrease Net income.

B. If a firm decreases the probability that the accounts receivable will be uncollected, it will increase the reserve for uncollectible debt and decrease Net income.

C. If a firm increases the probability that the accounts receivable will be uncollected, it will increase the reserve for uncollectible debt and decrease Net income.

Q.2388 If goodwill is an intangible asset and cannot be depreciated, then which of the following assumptions can the management use to increase the earnings in a specific period?

A. Delaying the impairment charge for goodwill.

B. Delaying the amortization charge on goodwill.

C. Recognizing the amortization charge on goodwill.

Q.2390 The strategy of deferring reported earnings through choosing conservative financial reporting standards so that earnings can be utilized later, is *most likely* known as:

A. Earnings smoothing.

B. Putting earnings in a cookie jar.

C. Putting earnings in restrictive reserves.

Q.2391 Which of the following are *inaccurate* statement(s) regarding auditors?
Statement I. An auditor’s unqualified opinion can provide reasonable assurance that financial statements are fairly presented.
Statement II. An auditor’s unqualified opinion can assure that the firm is GAAP compliant or not.
Statement III. An auditor’s unqualified opinion can assure that the firm is not engaged in fraud.

A. Statement I.

B. Statement III.

C. Statements II and III.

Q.2395 Which of the following is *least likely* a warning sign in the revenue recognition activity of a firm?

A. Use of credit sales.

B. Use of barter transactions.

C. Decreasing trend in receivables turnover.

Q.2396 Which of the following is *most likely* viewed as the warning sign for fraud or low-quality earnings?

A. A firm's net income is greater than the amount of operating cash flow.

B. A firm's amount of operating cash flow is greater than the net income.

C. A firm's net income is greater than the amount of cash flow from investing activities.

Q.2398 An analyst gathered the following information regarding the accounting practices of the Sun Corp., Moon Corp., and Star Corp. Using his analysis provided in the following table, where will Moon Corp. stand on the quality spectrum?

Sun Corp.	Adheres to US GAAP Accounting choices show no bias Provides adequate earnings
Moon Corp.	Adheres to US GAAP with some deviations Accounting choices show an aggressive bias Provides adequate earnings
Star Corp.	Adheres to US GAAP Accounting choices show a conservative bias Provides inadequate earnings

A. Moon Corp. stands at the lowest place in the quality spectrum of financial reporting.

B. Moon Corp. stands at the highest place in the quality spectrum of financial reporting.

C. Moon Corp. stands in the middle of Sun Corp. and Star Corp. in the quality spectrum of financial reporting.

Q.2400 Which of the following is *least likely* a warning sign of fraudulent accounting practices?

A. Declining the amount of goodwill for impairment.

B. Recognizing a greater portion of earnings in the fourth quarter.

C. Growing the business by acquiring a large number of businesses.

Q.4273 Which of the following *least likely* presents an opportunity for management to issue low-quality financial reports?

A. Poor internal controls.

B. Ineffective board of directors.

C. Pressure to achieve some performance level.

Q.4909 Which of the following *best* describes the relationship between financial reporting quality and earnings quality?

A. Low earnings quality guarantees low financial reporting quality.

B. Financial reporting quality and earnings quality are entirely independent of each other.

C. High financial reporting quality enables a more accurate assessment of earnings quality.

Q.4910 An analyst observes that a company's financial reports are highly detailed and comply with all standards, yet the company's earnings fluctuate widely each year. What is the *most likely* implication of this observation?

A. The company's financial reporting quality is low.

B. Both financial reporting quality and earnings quality are high.

C. The company's earnings quality may be low despite high financial reporting quality.

Q.4911 An analyst finds that a company's financial reports are free from errors but are heavily biased towards optimistic projections and assumptions. This situation *most likely* indicates:

A. Low earnings quality.

B. High financial reporting quality.

C. Compromised neutrality in financial reporting quality.

Q.4912 Which of the following scenarios *most likely* indicates low financial reporting quality but high earnings quality?

A. A company with detailed, accurate disclosures but unstable earnings.

B. A company with conservative accounting practices and sustainable earnings.

C. A company performing well but providing minimal and biased financial disclosures.

Q.4913 How does the inclusion of non-GAAP financial measures in reports potentially affect analysts' assessments?

A. It simplifies the comparison across companies.

B. It enhances the reliability and accuracy of financial assessments.

C. It complicates the comparability and reliability of financial assessments.

Q.4914 A company has shown remarkable growth in its revenue and net income over the past three years. However, an analyst notices that the company's receivables have grown disproportionately compared to its revenue, and its inventory turnover ratio has significantly decreased. The company also reports substantial non-GAAP earnings adjustments related to capitalization of certain expenses that competitors typically expense. What should the analyst *most likely* conclude about the company's financial reporting and earnings quality?

A. The company's financial reporting quality is high due to consistent revenue and net income growth.

B. The company's financial reporting quality is high, but earnings quality is low due to the decline in inventory turnover.

C. The company's financial reporting quality is questionable, and earnings quality may be overstated due to potential earnings management and aggressive accounting choices.

Q.4915 Which of the following *most accurately* describes the impact of conservative accounting on future financial statements?

A. It leads to a sustained overstatement of future earnings.

B. It ensures that current period losses are carried forward to future periods.

C. It results in improved future earnings performance when the conservative estimates reverse.

Q.4916 How does the "big bath" restructuring charge affect a company's financial reporting?

A. It smooths earnings by evenly distributing losses across multiple periods.

B. It artificially inflates future earnings by recording large losses in the current period.

C. It ensures that future costs are accurately reflected in the current period's financial statements.

Q.4917 Which of the following *best* describes the primary benefit of conservative accounting for less informed parties?

A. It provides a more optimistic view of the company's financial health.

B. It protects against the risk of overstatement of assets and earnings.

C. It aligns more closely with management's desire to report strong financial performance.

Q.4918 Which of the following is *most likely* a consequence of aggressive accounting practices in the current reporting period?

A. Future earnings volatility decreases.

B. Short-term financial performance appears stronger.

C. Long-term sustainability of earnings improves.

Q.4919 Which of the following *most likely* explains why it is essential for analysts to consider the intent behind the application of accounting standards?

A. To identify potential tax savings for the company.

B. To determine the appropriateness of the company's capital structure.

C. To accurately infer whether the financial reporting is conservative or aggressive.

Q.4920 How does the IFRS treatment of impairment losses differ from US GAAP, potentially affecting the level of conservatism in financial reporting?

A. IFRS does not allow the reversal of impairment losses, while US GAAP does.

B. IFRS requires immediate expensing of research costs, while US GAAP allows capitalization.

C. IFRS impairment losses are recognized based on value in use, while US GAAP uses undiscounted future cash flows.

Q.4921 Which of the following factors is *most likely* to pressure managers into issuing low-quality financial reports?

A. High levels of job security.

B. Strict adherence to ethical guidelines.

C. Bonuses tied to short-term earnings targets.

Q.4922 Which of the following conditions would *most likely lead to high-quality financial reporting?*

A. Robust internal controls.

B. A regulatory regime with strong enforcement.

C. Managers' compensation tied solely to short-term earnings.

Q.4923 How do registration requirements imposed by regulatory authorities *most likely* help maintain financial reporting quality?

A. By mandating periodic reviews of financial reports.

B. By setting penalties for non-compliance with financial reporting standards.

C. By requiring companies to disclose relevant risks and financial information before selling securities.

Q.4924 How does the concept of the "expectations gap" impact the perception of audit effectiveness?

A. It highlights the limitations of sampling in audit procedures.

B. It addresses the potential influence of auditors' fee structures on their independence.

C. It reflects the difference between public expectations and what audits are designed to accomplish.

Q.4925 Which of the following *best* describes a limitation of EBITDA as a performance measure?

A. It does not account for capital expenditures, which are essential for maintaining and growing operations.

B. It provides a comprehensive view of a company's financial health by including interest and taxes.

C. It is less affected by non-recurring items and thus offers a clearer picture of ongoing performance.

Q.4926 Which of the following *best* describes how pro forma earnings can potentially mislead investors?

A. They adjust earnings to exclude non-recurring items, making ongoing performance clearer.

B. They present a version of earnings that may exclude important expenses, inflating profitability.

C. They provide a conservative view of the company's financial performance.

Q.4927 Which of the following is *most likely* a key limitation of relying solely on EBITDA as a measure of a company's financial performance?

A. It does not provide information about the company's revenue growth.

B. It excludes interest, taxes, depreciation, and amortization, which are crucial for assessing profitability.

C. It does not account for changes in working capital, which can impact cash flow.

Q.4928 Which of the following actions would *most likely* result in a higher valuation allowance for deferred-tax assets?

A. Optimistic projections of future profitability.

B. Pessimistic projections of future profitability.

C. Increasing the estimated useful life of depreciable assets.

Q.4929 Which of the following accounting practices would *most likely* indicate an attempt to manipulate reported earnings through expense recognition?

A. Recognizing expenses immediately in the period incurred.

B. Capitalizing expenses and amortizing them over several periods

C. Misclassifying operating expenses as non-recurring expenses.

Q.4930 An analyst notices that a company prominently features its non-GAAP financial measures in earnings reports. What steps should the analyst take to critically evaluate these non-GAAP measures?

A. Disregard non-GAAP measures entirely and base the analysis only on GAAP measures.

B. Prioritize non-GAAP measures over GAAP measures, as they are tailored to reflect the company's unique financial situation.

C. Compare the non-GAAP measures to the most comparable GAAP measures and scrutinize the reconciliation provided by the company.

Q.4931 XYZ Manufacturing has reported higher net income for the past two years despite a downturn in the manufacturing sector. An in-depth look at their financial statements shows significant capitalization of expenses related to research and development (R&D) and an increase in deferred costs on the balance sheet. To evaluate if XYZ Manufacturing is using aggressive accounting to defer expenses, which steps should an analyst take?

A. Examine the company's cash flow statement for signs of unusual patterns.

B. Analyze the trend in deferred costs relative to revenue growth over the past few years.

C. Review the company's R&D capitalization policy and compare it with industry standards.

Q.4932 A company's net income has consistently exceeded cash flow from operations. Which of the following is the *most likely* explanation? The company:

A. is efficiently managing its working capital.

B. is using aggressive accrual accounting policies.

C. has a strong cash conversion cycle.

Learning Module 11: Financial Analysis Techniques

Q.500 An analyst gathered the following information for a small company reporting under IFRS:

Revenue	$600,000
Cost of sales	($120,000)
Average inventory	$40,000
Average Trade Receivables	$60,000

Assuming that the number of days in a year is to be assumed as 360, the days of sales outstanding (DSO) is *closest to*:

A. 3.

B. 10

C. 36.

Q.501 Which of the following is *least likely* a possible root cause for a reduction in the inventory turnover ratio?

A. Change in fashion.

B. Obsolescence of technology.

C. Increase in the number of distributors

Q.502 For a hypothetical company, the working capital turnover and fixed asset turnover ratios are 4 and 6, respectively. Moreover, the revenue for the company is estimated at $120,000. The average working capital for the company is *closest to*:

A. $20,000

B. $30,000

C. $45,000

Q.504 Which of the following is the *most accurate* description of the defensive interval ratio?

A. The defensive interval ratio measures the duration for which the daily cash requirements can be met from the current liabilities.

B. The defensive interval ratio measures the duration for which the daily cash requirements of a period can be met from the existing liquid assets.

C. The defensive interval ratio measures the duration for which the daily cash requirements of a period can be met from the expected liquid assets at the end of the period.

Q.506 Calculate the leverage from the following data.

Return on equity	5.4%
Net profit margin	3.5%
Total asset turnover	1.1

A. 1.19

B. 1.40

C. 1.54

Q.507 Revenue per employee is an acceptable ratio for analysis in which of the following industries?

A. The service industry.

B. The banking industry.

C. The manufacturing industry.

Q.1029 Return on capital will *most likely* be higher in which of the following cases?

A. If the firm has 50% of the market share and another firm has the other 50%.

B. If the firm has a 10% market share and all other firms have less than 5% of the market share.

C. Return on capital is not affected by market shares.

Q.2097 Which of the following is *least likely* a limitation of ratios?

A. Ratios evaluate changes in firms and industries over time.

B. Ratios are only useful when compared to other firms or to the company's historical performance.

C. The comparison of ratios with other firms is difficult due to accounting standards differences.

Q.2099 Which of the following statements is *least likely* true regarding the common-size analysis of financial statements?

A. A horizontal common-size income statement calculates all line items as a percentage of the base year's total assets.

B. A vertical common-size balance sheet presents each balance sheet item by the same period’s total assets total assets.

C. A vertical common-size income statement presents each income statement item as a percentage of revenue or by total assets.

Q.2100 Which of the following is *least likely* use of the graphical analysis of financial data?

A. Analyze the trend in data.

B. Compare data across firms and time.

C. Identify the relationship between two variables.

Q.2101 An analyst analyzing a firm's ability to meet its long-term debt obligation is *most likely* to use which of the following financial ratio?

A. Debt-to-assets ratio.

B. Defensive interval ratio.

C. Working capital turnover ratio.

Q.2102 Galactic Hyper is a chain of hypermarkets that sells most of its products for cash, which is why its days of sales outstanding are as low as 22 days. Assuming that the firm's average receivables are $234,000, and the cost of goods sold (COGS) for the one year is $1,245,000, the annual sales of Galactic are *closest to*:

A. $1,410,400.

B. $3,882,000.

C. $4,880,200.

Q.2103 If the Cost of goods sold (COGS) decreases, what is the *most likely* effect on days of inventory on hand?

A. Days of inventory on hand ratio will decrease.

B. Days of inventory on hand ratio will increase.

C. Days of inventory on hand ratio will remain unchanged.

Q.2104 The working capital turnover ratio of a hypothetical firm is 12.5. Which of the following is the *most likely* impact on the ratio if the firm utilized its cash to purchase inventory?

A. The working capital turnover ratio will increase.

B. The working capital turnover ratio will decrease.

C. The working capital turnover ratio will remain unchanged.

Q.2105 A firm's number of days of payables is 69 days compared to an industry average of 45 days. Which of the following is the *most appropriate* interpretation of this discrepancy?

A. The firm might be taking too long to pay its payables.

B. The firm's customers might be taking too long to pay the firm.

C. The firm's payable turnover ratio is greater than the industry's payable turnover ratio.

Q.2107 Firm A and Firm B are two firms located in the same geographical location and serving the same geographical markets. Assuming that Firm A's Asset Turnover ratio is 1.2 while the Asset Turnover ratio of Firm B is 2.5, which of the following is an appropriate interpretation of the ratios?

A. Firm A is more capital-intensive than Firm B.

B. Firm A uses its assets more efficiently as compared to firm B.

C. Firm B has a greater portion of its capital invested in assets than Firm A.

Q.2109 Layout Works is a printing press, which takes an average of 25 days to pay its payables, and it takes an average of 10 days for its customers to pay Layout. Given that the average cash conversion cycle of the printing industry is 110 days, the firm's estimated days of inventory on hand is *closest to*:

A. 75 days.

B. 95 days.

C. 125 days.

Q.2110 Which of the following ratios can an analyst *most likely* use to measure the number of days of average cash expenses a firm can pay with its liquid assets?

A. Cash ratio.

B. Defensive interval ratio.

C. Working capital turnover ratio.

Q.2111 Turks & Co. is a glass-manufacturing firm whose income statement is being analyzed by an analyst at a local credit rating firm. Some relevant accounts for the year 2016 have been given in the following table:

Income Statement

Sales	15,000
COGS	6,500
Gross Profit	8,500
Depreciation	800
SG&A	550
Lease Payments	350
EBIT	6,800
Interest Payment	250
EBT	6,550
Taxes	1,965
EAT	4,585

Using the given data, the fixed charge coverage ratio of the firm is *closest to*:

A. 11.92

B. 20.42

C. 28.60

Q.2113 Turks & Co. is a glass-manufacturing firm whose income statement is being analyzed by a CFA member at a local credit rating firm. Using the data given in the following table, calculate the operating profit margin.

Income Statement

Sales	15,000
COGS	6,500
Gross Profit	8,500
Depreciation	800
SG&A	550
Lease Payments	350
EBIT	6,800
Interest Payment	250
EBT	6,550
Taxes	1,965
EAT	4,585

A. 43.67%

B. 45.33%

C. 56.67%

Q.2115 Company X, Y & Z are market leaders in the air cargo industry. Some ratios of the three companies are given in the following table:

	Company X	Company Y	Company Z
Return on Assets	55%	34%	17%
Profit Margin	35.00%	28.00%	11.30%
Quick Ratio	0.7	2.8	1.1
Financial Leverage	3.7	5.7	11.37

Assuming all three firms are identical in terms of size and revenue, the company that uses the greatest portion of debt in its capital structure is *closest to*:

A. Company X.

B. Company Y.

C. Company Z.

Q.2117 Which of the following transactions will *most likely* increase the financial leverage ratio by the largest amount?

A. Purchase of Land through debt financing.

B. Purchase of Plants by issuing new equity.

C. Purchase of Inventory using cash equivalents.

Q.2118 A highly leveraged company has sales of $1.5 million, a gross profit margin of 40%, and an average inventory of $250,000 for the year 2015. The firm's inventory turnover ratio for the year 2015 is *closest to*:

A. 2.4

B. 3.6

C. 6.0

Q.2119 If a company's debt-to-equity ratio is 2.5, which of the following transactions will *least likely* increase the debt-to-equity ratio?

A. The issuance of bonds to reacquire shares.

B. The payment of dividends to common shareholders.

C. The purchase of assets with 50% debt and 50% equity.

Q.2120 If a firm's current ratio increased from 1.1 to 1.7 due to an increase in inventory, what is the *most likely* impact on the asset turnover ratio?

A. The asset turnover ratio will increase.

B. The asset turnover ratio will decrease.

C. The asset turnover ratio will remain unchanged.

Q.2121 What is the *most likely* impact on a firm's return on equity ratio if the corporate tax rate increases from 25% to 27%?

A. The Return on equity ratio will increase.

B. The Return on equity ratio will decrease.

C. The Return on equity ratio will remain unchanged.

Q.2122 An analyst analyzes the last three years' balance sheets of Cosmo Inc. given in the following table.

Balance Sheet

	2017	2016	2015
Acc. Rec.	300	210	150
Inventory	500	540	450
Total Current Assets	800	750	600
Land	1,800	1,450	1,200
Total Assets	2,600	2,200	1,800
Acc. Payables	400	330	500
Long-term Debt	1,300	770	400
Common Equity	900	1,100	900
Total Liab. & Equity	2,600	2,200	1,800

The value of short-term liabilities for the most recent year if an analyst converts the balance sheet into a vertical common-size balance sheet is *closest to*:

A. 10.54%

B. 15.38%

C. 50%

Q.2124 An analyst is trying to analyze the trend in the capital structure of Cosmo Inc.

Balance Sheet

	2017	2016	2015
Acc. Rec.	300	210	150
Inventory	500	540	450
Total Current Assets	800	750	600
Land	1,800	1,450	1,200
Total Assets	2,600	2,200	1,800
Acc. Payables	400	330	500
Long-term Debt	1,300	770	400
Common Equity	900	1,100	900
Total Liab. & Equity	2,600	2,200	1,800

If Cosmo Inc. had no short-term debt, the trend using the debt-to-equity ratio is *most likely*:

A. Cosmo Inc. has a decreasing trend in its use of debt financing.

B. Cosmo Inc. has an increasing trend in its use of debt financing.

C. Cosmo Inc. has an increasing trend in its use of equity financing.

Q.2125 Which of the following is the *most appropriate* equation for calculating the return on equity ratio?

A. Return on Equity = Net Profit Margin × Asset Turnover × Financial Leverage.

B. Return on Equity = Net Profit Margin × Equity Turnover × Financial Leverage.

C. Return on Equity = Gross Profit Margin × Return on Assets × Financial Leverage.

Q.2126 A research analyst at Shark Investment Management is conducting a DuPont analysis for a firm whose financial data for the year 2016 is provided in the following table:

Financial Data

Revenue	1,450,000
COGS	550,000
Gross Profit	900,000
SG&A	160,000
Wages Exp.	140,000
EBITDA	600,000
Dep. Exp.	220,000
Operating Profit	380,000
Interest Payment	170,000
EBT	210,000
Taxes	63,000
EBT	210,000
Taxes	63,000
Net Income	147,000
Total Assets	3,400,000
Total Debt	1,500,000

Considering that the data provided is accurate, the firm's tax burden is *closest to*:

A. 0.25

B. 0.30

C. 0.70

Q.2128 A research analyst at Shark Investment Management is conducting a DuPont analysis for a firm whose financial data is provided in the following table:

Financial Data

Revenue	1,450,000
COGS	550,000
Gross Profit	900,000
SG&A	160,000
Wages Exp.	140,000
EBITDA	600,000
Dep. Exp.	220,000
Operating Profit	380,000
Interest Payment	170,000
EBT	210,000
Taxes	63,000
EBT	210,000
Taxes	63,000
Net Income	147,000
Total Assets	3,400,000
Total Debt	1,500,000

Considering that the data provided is accurate, the firm's return on equity using the extended DuPont ratio is *closest to*:

A. 7.7%

B. 10%

C. 43%

Q.2129 Armen Inc. and Bristol Corp. are market leaders in the construction industry. Some financial information regarding the two firms is given in the following table:

	Armen Inc.	Bristol Corp.
Revenue	6,000,000	8,000,000
Gross Profit	3,400,000	5,500,000
EBIT	2,100,000	2,700,000
Net Income	1,500,000	1,800,000
Total Debt	6,400,000	7,200,000
Dividend per Share	1	2
Share Price	25	22
Number of Shares Outstanding	500,000	600,000

Assuming that each firm's market capitalization is approximately equal to the firm's total equity, Armen Inc.'s return on equity ratio is *closest to*:

A. 12%.

B. 25%.

C. 56%.

Q.2135 Which of the following analysis methods examines the variability in financial outcome based on a change in one specific variable?

A. Scenario analysis.

B. Sensitivity analysis.

C. Simulation analysis.

Q.2136 A company earned a net income of $500,000 with sales of $2,500,000 for the year 2016. If the asset turnover ratio of the firm is 0.4, and the financial leverage is 1.3, then the return on equity of the firm is *closest to*:

A. 8.0%

B. 10.4%

C. 20.0%

Q.2394 An analyst at a German research firm analyzes the reports of a home appliances firm, Arab Appliances, for his emerging markets income fund. Some of the information from his analysis is given in the following table and notes:

Note	Income Statement	2015	2016
1	Revenue	$3,000,000	$3,000,000
2	COGS	$1,900,000	$2,500,000
	Gross Profit	$1,100,000	$500,000
3	Research Cost	-	$120,000
	Depreciation Exp.	$90,000	$90,000
	EBIT	$1,010,000	$290,000
4	Interest	$150,000	-
	Net Income	$860,000	$290,000

Note 1 - Arab Oven consistently sold 20,000 units of Smart Oven at the price of $150, in 2015 and 2016, because the country has hypothetically zero inflation which means there was no increase or decrease in input prices.
Note 2 - Arab Oven's supplier is a private company that is owned by the management of the Arab Oven. Arab only uses the FIFO inventory method.

Note 3 - Arab Oven is continuously engaged in the research for innovations in smart appliances. The firm capitalized on the research cost in 2015 but decided to expense it in 2016. This capitalization increased the depreciation cost which was $80,000 originally.

Note 4 - The firm expensed the interest cost in 2015 but resolved to capitalize the interest on the funds used for the construction of new technology. The capitalization of interest increased the depreciation for the year which was $80,000 originally.

After analyzing the information given in the table and notes, which of the following is the most accurate statement regarding the change in the asset turnover ratio of Arab Oven?

A. The asset turnover ratio is lower in 2015.

B. The asset turnover ratio is lower in 2016.

C. The asset turnover ratio is the same in 2015 and in 2016.

Q.3796 Consider the following information for a company:

- Net income - $ 5,000
- Income tax expense - $ 1,130
- Interest Expense and Payments - $ 1,050
- Lease Payments - $ 700

The fixed coverage ratio for the company is *closest to*:

A. 2.9

B. 4.1

C. 4.5

Q.4933 An analyst is examining the common-size balance sheets of two companies to evaluate their financial structure. Which of the following is *most likely* to distort the analysis? Differences in:

A. fiscal year-end dates.

B. industry classification.

C. asset valuation methods.

Q.4934 Which of the following aspects of ratio analysis is *least likely* to distort meaningful comparisons across companies and over time?

A. Interpretation of the ratios.

B. Differences in accounting policies.

C. Ratios are indicators, not the answers.

Q.4935 You have been provided with the following financial ratios for Company ABC for the periods ending December 31, 2021, and December 31, 2020:

Ratios	December 31, 2021	December 31, 2020
Return on equity	8.25%	6.45%
Return on assets	4.35%	3.98%
Current ratio	1.85	1.65
Inventory turnover	4.3	3.7
Net profit margin	4.75%	3.90%
Debt-to-assets	48.25%	55.00%

Which of the following best describes the trend in Company ABC's financial performance from 2020 to 2021?

A. Improved profitability and liquidity, and stronger solvency

B. Declined profitability, improved liquidity, and weaker solvency

C. Improved profitability, weaker liquidity, and stronger solvency

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Q.4936 An analyst is evaluating the liquidity of a company using the following ratios over the past three years:

Ratio	2023	2022	2021
Current Ratio	1.8	2.0	2.5
Quick Ratio	1.2	1.4	1.6
Days of Inventory Held (DOH)	60	55	50
Days Sales Outstanding (DSO)	45	42	40

Which of the following best explains the observed change in the company's liquidity ratios from 2021 to 2023? The company has:

A. reduced its short-term liabilities.

B. significantly increased its inventory levels.

C. improved its cash collection from customers.

Q.4937 An analyst is examining the financial health of a bank using industry-specific ratios. Which of the following ratios would *most effectively* provide insights into the bank's ability to comply with regulatory requirements and maintain liquidity?

A. Return on Equity (ROE)

B. Capital Adequacy Ratio

C. Average Revenue Per User (ARPU

Learning Module 12: Introduction to Financial Statement Modeling

Q.4557 MNO Services, a rapidly expanding service provider, is developing a sales-based proforma model to project its financial standings for the next quarter. Over recent years, the company has observed an average revenue growth of 7%. MNO's Cost of Goods Sold (COGS) typically represents 50% of its sales. The projected administrative and operational costs, including Selling, General, and administrative expenses (SG&A), are expected to escalate by 4% yearly. The executive team is deliberating substantial investments in technological infrastructure to support its growing client base and operational capacity. The organization also foresees modifications in its capital structure, likely influencing its borrowing costs. As a financial consultant, which of the following steps would be most imperative in ensuring the precision and reliability of the proforma model for MNO Services?

A. Primarily focusing on forecasting revenue growth.

B. Preserving the COGS and SG&A expenses at levels consistent with historical trends.

C. Attentively considering the planned investments in technological infrastructure and anticipated alterations in the capital structure.

Q.4560 Which of the following is the *most likely* outcome for a company that chooses price reduction in a market with highly competitive rivalry and strong bargaining power of buyers?

A. Diminish the bargaining power of buyers.

B. Attain a sustainable competitive advantage.

C. Erode profit margins without significant market share gain.

Q.4561 Which of the following is *most likely* an outcome for established companies in an industry when new entrants emerge and increase competition?

A. Established companies will significantly raise their prices.

B. New entrants will have minimal impact on the pricing strategies of established companies.

C. Established companies may reevaluate and potentially lower their prices to retain market share.

Q.4563 In a market where the bargaining power of suppliers is high, what is a likely effect on companies requiring specialized inputs from these suppliers?

A. Companies will experience a decrease in production costs.

B. Companies may be forced to elevate their product prices due to increased input costs.

C. Companies will gain significant leverage over these suppliers, leading to lower input prices.

Q.4564 In a deflationary environment, if companies hold prices steady despite decreased costs, what is the *most likely* effect on the industry?

A. Sudden increase in industry-wide profit margins.

B. Intensified price competition and reduced industry revenues

C. Potential increase in sales volume due to higher consumer purchasing power.

Q.4565 Which of the following is *most likely* an outcome for companies that fail to renegotiate supplier contracts or optimize production in a deflationary scenario

A. Rapid growth in market share.

B. Improved profitability due to naturally decreasing costs.

C. Difficulty maintaining profitability due to decreased pricing power and revenue.

Q.4566 Which of the following factors is *least likely* to be considered when using the DCF approach for long-term forecasting?

A. Company's historical average multiple.

B. Terminal cash flow persisting in the future.

C. Future long-term growth rate differing from the historical rate.

Q.4567 Which of the following is *most likely* a challenge in forecasting industry sales and costs during periods of economic disruption?

A. Economic disruption does not significantly impact industries.

B. It's difficult to predict inflection points where the future significantly differs from the recent past.

C. Industries typically do not respond to changes in the business cycle, government regulation, or technology.
