

Practice Test 3: Accounting: 25 Questions; Q M: 15 Questions; Economics: 10

Questions

1. In the accounting equation, non-current assets plus working capital equals:
 - A Shareholders funds
 - B Share capital
 - C Shareholders funds plus long-term loans and provisions
 - D Share capital plus long-term loans and provision

2. In the accounting equation, reserves equals:
 - A Share capital
 - B Shareholders' funds
 - C Shareholders' funds minus long-term liabilities
 - D Total assets minus total liabilities, minus share capital

3. If a company makes a provision for the first time against the estimated amount of doubtful debts, this will:
 - A Be shown as a note to the accounts only
 - B Increase reported profits for the year
 - C Have no effect on profits, but reduce receivables in the balance sheet
 - D Reduce reported profits for the year

4. A company's authorised share capital is:
 - A The total share capital in the original memorandum of association
 - B The total amount of share capital the company has currently in issue
 - C The maximum amount of share capital the company currently has the power to issue
 - D The amount of share capital the directors intend to issue

5. Which of the following methods of calculating cost will, all other things being equal, produce the lowest value for cost of sales during a period when the purchase (input) price of the item concerned is falling?
 - A First In, First Out
 - B Last In, First Out
 - C Average cost
 - D Historic cost

6. A business may make a profit during a period, but have less cash in the bank at the end of the period. This is possible if:
- A Receivables are taking longer to pay than previously
 - B The business is not paying its payables
 - C There has been an issue of shares
 - D Some non-current assets have been sold during the period
7. Post-balance sheet events are:
- A Adjustments required by the company's auditors
 - B Events which take place after the company's preliminary results have been announced
 - C Events which occur between the balance sheet date and the date on which the directors approve the accounts
 - D Events which take place after the accounts are published
8. All of the following are categories of non-current assets, except:
- A Investments
 - B Intangible
 - C Tangible
 - D Inventories
9. All of the following can be shown as intangible assets on the balance sheet of a printing and publishing company, except:
- A Goodwill
 - B Computer hardware
 - C Publishing rights and titles
 - D Licenses
10. The effect on a company's accounts of borrowing money would be to:
- A Increase assets and increase shareholders' funds
 - B Increase assets and decrease liabilities
 - C Increase assets and decrease shareholders funds
 - D Increase assets and increase liabilities
11. A purchase of a non-current asset on credit will have what effect on a company's accounts?
- A No effect on net assets; no effect on shareholders' funds
 - B Increase assets; increase shareholders' funds
 - C Increase assets; decrease shareholders' funds

D Increase assets; increase liabilities

12. In which of the following categories would prepayments be found in a set of accounts?

- A Current assets
- B Current liabilities
- C Non-current assets
- D Non-current liabilities

13. When reconciling the cash flow statement, the income statement and the balance sheet, you are required to calculate the net cash flow figure for the company. Which of the following would be added to the trading profit figure to arrive at the correct net cash flow figure?

- I. An increase in inventory
- II. A decrease in accounts receivable
- III. An increase in accounts payable
- IV. Depreciation charges on assets

- A I and IV
- B II, III and IV
- C I only
- D II and IV

14. Contingent liabilities would be found where within the accounts of a company?

- A Balance Sheet
- B Cash Flow Statement
- C Notes to the Accounts
- D Income Statement

15. Given the following information, calculate the net cash flow for the period (to the nearest £m).

Operating profit	£20m
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Stated after charging:

Depreciation	£4m
Loss on sale of non-current assets	£2m

Other items:

Increase in receivables	£5m
Increase in inventory	£2m

Increase in payables

£3m

Important! You should enter the answer only in numbers strictly using this format:
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16. Which of the following does not qualify as a revenue expense?

- A Interest payments on business loan
- B Purchase of a new computer
- C Professional fees
- D Print and stationery costs

17. A limited company has the following entries in its financial statements.

Receivables	55,000
Payables	25,000
Non-current assets (original cost)	425,000
Accumulated depreciation at year end	35,000
Annual depreciation charge	7,500
Bad debt provision	15,000
Loan secured against fixed assets	250,000

What is the net book value of non-current assets in the year-end financial statements assuming the cost model is applied?

- A £390,000
- B £382,500
- C £140,000
- D £447 500

18. A company has operating profits of £300000 and interest payable of £25,000. Its shareholders' funds are £1000,000 and long-term loans are £100,000. What is its return on capital employed, where capital employed is defined as non-current assets plus working capital (in % to one decimal place)?

Important! You should enter the answer only in numbers strictly using this format:
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19. A company has inventory of £3 million, receivables of £5 million, cash balances of £1 million, short-term payables of £6 million and long-term payables of £1 million. What is its acid test (quick) ratio (to two decimal places)?

Important! You should enter the answer only in numbers strictly using this format: 0.00

20. Working capital is said to be:
- A Total assets - Total liabilities
 - B Net current assets
 - C Total assets - Current liabilities
 - D Current assets - Total liabilities
21. According to International Accounting rules, if Co X has an investment in Co Y and exerts no significant influence, how is Co Y accounted for in Co X's accounts?
- A Minority investment
 - B Subsidiary
 - C Associate
 - D Investment
22. A company with a low gearing ratio will:
- A Have a high level of debt finance
 - B Have a high level of equity finance
 - C Have a low ratio of current assets to current liabilities
 - D Have a low return on capital employed
23. A firm has shareholders' funds of £3,600,000, non-current liabilities of £1,000,000 and current liabilities of £2,300,000, Calculate the capital employed.
- A £3,600,000
 - B £3,900,000
 - C £4,600,000
 - D £4,900,000

24. Which of the following would be reported in a firm's profit and loss account?
- A Dividends paid
 - B Impairment losses on non-current assets
 - C Gains/losses on currency forwards used as a cash flow hedge
 - D Actuarial gains/losses in a defined benefit pension fund
25. Which of the following would be reported in the profit and loss account of a firm offering a defined benefit pension scheme?
- I. Service cost
 - II. Net interest
 - III. Actuarial gains/losses
 - IV. Gains/losses in the market value of the plan assets
- A I only
 - B I and II
 - C I, II and III
 - D II and IV
26. A financial analyst uses the following sources of data.
- I. Original market research
 - II. Datastream Professional and Bloomberg screens
 - III. Government publications of financial statistics
 - IV. Discussions with company personnel
- What constitutes secondary data?
- A I and IV
 - B II and III
 - C I and II
 - D III and IV
27. You have been asked to explain the differences between a population and a sample.
- I. A population represents all the members of a specifically defined group
 - II. A population represents the majority of members of a specifically defined group
 - III. A sample represents a subset of the full population selected
 - IV. A sample may not reflect the full population
- Which of the above statements are correct?

- A I and III are both false; II and IV are both true
- B II and IV are both true; I and III are both false
- C II and III are both true; I and IV are both false
- D I, III and IV are all true whereas II is false

28. A bond had the following quarterly total returns over the last two years.

-19%, 8%, 4%, 12%, 6%, -2%, 3%, -7%

Important! You should enter the answer only in numbers strictly using this format: 0.00

What was the geometric mean quarterly return (in % to two decimal places)?

29. The rate of change of seven corporate bond prices last year was

4%, 2%, -1%, 2%, 0%, 5%, 3%

What is the interquartile range of rate of change (to the nearest %)

Important! You should enter the answer only in numbers strictly using this format: 0

30. The distribution of daily share price changes for a sample of 200 shares are distributed in intervals as follows.

Interval	I	II	III	IV	V
% Increase	-10 to -0.001	0 to 9.999	10 to 19.999	20 to 29.999	30 to 39.999
No. of shares	22	40	62	48	28

The mean rate of change of share price for the sample is:

- A 15.5
- B 16.0
- C 16.5
- D 17.0

31. The sample standard deviation is defined as the:

- A Square of the sample variance
- B Sample variance divided by the number of observations in the sample
- C Sample variance divided by the number of the observations in the sample minus one
- D Square root of the sample variance

32. Which of the following is an incorrect statement about the normal distribution?

- A Symmetric distribution
- B 95% of observations lie within two standard deviations either side of the mean
- C Approximately 50% of observations lie within one standard deviation of the mean
- D The curve is frequently characterized as 'bell shaped'

33. Which would be appropriate as a benchmark for a broadly based portfolio of UK and US shares?

- A S&P500 and DAX
- B S&P 100 and FT30
- C S&P 100 and FT250
- D S&P500 and FTSE100

Answer the next three questions based on the following information:

Item	Base		Current	
	Price	Quantity	Price	Quantity
I	1.00	8	2.50	6
II	1.20	7	2.00	7
III	1.40	6	2.30	6
IV	1.60	5	2.70	7

An index value of 200 was set in the base year.

34. What is the current price weighted or price-relative arithmetic index (to the nearest point)? Important! You should enter the answer only in numbers strictly using this format: 000

35. What is the current price weighted geometric Index (to the nearest index point)?

Important! You should enter the answer only in numbers strictly using this format: 000

36. What is the market value weighted arithmetic index?

- A 185
- B 190
- C 369
- D 376

37. Which of the following is true of the DAX Index?

- A Market value weighted and geometric
- B Market value weighted and arithmetic
- C Price weighted and arithmetic
- D Price weighted and geometric

38. The value of an investor's equity portfolio has risen from £18,000 to £20,000 over the last five years. What is the (constant) annual rate of appreciation?

- A 2.1%
- B 2.3%
- C 2.5%
- D 1.7%

39. You have £1,000 to invest for ten years. There are two options (both quoted on a periodic basis rather than annualised):

- I. 2% quarterly compounding
- II. 3% semi-annually compounding

- A I is better than II by £402
- B II is better than I by £402
- C I is better than II by £125
- D II better than I by £125

40. A repayment mortgage of £127,000 is taken out for a 15-year period at a rate of 8.75%. What is the annual repayment required at the end of each year?
- A £14,207
 - B £15,524
 - C £11,113
 - D £12,324
41. The fractional reserve banking system gives rise to which of the following?
- A The multiplier effect
 - B Automatic stabilisers
 - C The consumption function
 - D The potential money multiplier
42. Which of the following is true of the forward rate between two currencies?
- A It reflects market expectations of how the spot rate will move
 - B It reflects inflation rate differentials between the two currencies
 - C It reflects interest rate differentials between the two currencies
 - D It is determined by the central banks of the countries concerned
43. If the US\$/£ exchange rate was quoted in London as \$1.7770-\$1.7850, how many dollars would you receive for £1 million?
- A \$560,224
 - B \$562,746
 - C \$1,777,000
 - D \$1,785,000
44. For a currency spot contract, when will the currency be delivered?
- A The day of the trade
 - B The working day after the day of the trade
 - C Two working days after the day of the trade
 - D Five working days after the day of the trade

45. The current exchange rate between sterling and the dollar is \$1.46/£1. If UK inflation is 2% p.a. and in the US is 1.5% p.a. what is the expected exchange rate in four years' time (to four decimal places)?

Important! You should enter the answer only in numbers strictly using this format: 0.0000

46. A product is losing market share and profitability and a product re-launch is being discussed. Which is the most likely stage of the product life cycle that is being experienced?

- A Decline
- B Maturity
- C Obsolescence
- D Recession

47. The minimum long-run average total cost:

- A Is where profits are maximised
- B Is always less than the minimum short run average total cost curve
- C Is where economies of scale are growing
- D Is the minimum efficient scale

48. Which of the following statements are true?

- I. If two goods are substitutes, the cross-price elasticity of demand is likely to be positive
- II. The total revenue on a good with elastic demand can be expected to fall when the price rises
- III. If two goods are complements, a fall in the price of one reduces the demand for the other

- A I, II and III
- B II and III
- C I and III
- D I and II

49. An economist comments that in mobile manufacturing industry, if all input are increased, output will increase by greater proportion. We can associate this with
- A Increasing returns to scale
 - B Diseconomies of scale
 - C Constant returns to scale
 - D None of the above reasons
50. Assume that an economy is facing widening fiscal deficit. It also has trade surplus. Hence, we can conclude that
- A Savings and investments are perfectly balanced
 - B There are excess savings in the economy
 - C There are excess investments in the economy
 - D None of the above