Damascus University   - Economic college   5-3-2024
Open learning centre

Financial Statement Analyses

Q-1-economic events and accounting entries don't correspond precisely because they diverge across the following dimension except;

A-the dimension of timing   B-the dimension of recognition

C-the dimension of disclosure   D-the dimension of measurement

Q2-Liabilities relating to financing agreement include the following except:

A-Notes payable   B-Deferred tax   C-Bond payable   D-Credit agreements

Q3-Net income minus cost of goods sold equal:

A-Operating income   B-Income before taxes

C-Income after taxes   D-Gross profit

Q4--One of the following rules should be followed when comparing year to year percent change:

A-A percent change is computable when there is no figure for the base year.

B-A meaningful percent change can be computed when one number is positive and the other number is negative.

C-When an item has value in the base year and none in the next period, the increase is 100%

D-When an item has value in the base year and none in the next period, the decrease is100%

Q5-Ratios are interpretable in comparison with the following except:

A-Prior period ratios   B-Ratios of competitors

C-Predetermined standard   D-Vertical ratios

Q6-Vertical analyses means:

A-Compare each amount with a base amount for a selected base year

B-Compare each amount with a base amount selected from the same year

C-Compare each amount with a base ratio selected from the same year

D-None of the above

Q7- One of the following rules should be followed when comparing year to year percent change:

A-A percent change is computable when there is no figure for the base year.

B-A meaningful percent change can be computed when one number is positive and the other number is negative.

C-When an item has value in the base year and none in the next period, the increase is 100%

D-When an item has value in the base year and none in the next period, the decrease is100%

Q8--financial statements analysis would be simple if financial statement possess the following qualities except;

A-comparable among companies   B-consistent over time

C-always fully reflect the economic position of the firm   D-A&B only

Q-9-economic events and accounting entries don't correspond precisely because they diverge across the following dimension except;

A-the dimension of timing   B-the dimension of recognition

C-the dimension of disclosure   D-the dimension of measurement

Q10- the comparative measurement of risk and return to make investment or credit decision identifies;

A-financial statements analysis

B- credit analysis

C- the underlying objective of financial analysis

D-industry analysis

Q-11-equity investors are primarily interested in the following except;

A-short-term earning power of the business

B-long-term earning power of the business

C-the business ability to grow

D-its ability to pay dividends and increase in value

Q-12-investor who seeks an early payback of their investment is;

A-equity investor   B-short-term creditor   C-long-term creditor   D-A&B

Q-13-investors who are primarily concerned with the long-term assets position and earning power of the business are;

A-equity investor   B-short-term creditor   C-long-term creditor   D-A&B

Q-14-evaluating a company's economic prospects and risk includes the following process except;

A-Analysing the company's business environment   B-its strategy

C- industry circumstances   D-its financial position and performance

Q15analysis of business environment seeks to identify and assess a company's economic and industry circumstances. This includes the following except;

A-analysis of its product   B-its labour   C-its capital market   D-none is correct

PROBLEM*You have the following data for XO COMPANY

Cash		2350
Marketable security		4500
Prepaid insurance		6000
Account payable	3456	
Account receivable		4350
Wages payable	2230	
Note receivable		3551
Salaries expenses		6540
AverageInventory		5970
Retained earning	12350	
Note payable	3425	
Unearned revenue	4300	
Cost of goods sold		7500
Sales	15000	
Common stock	25.000	
	40761	40761

Required :

First- Calculate the following ratios:

1- current ratio   2-Acid test ratio   3-cash ratio

4- the company net working capital 5-day sale in receivable

6-inventory turnover

Second- Comment on each ratio

GOOD LUCK

Answer key:

Group one: **Multiple Choices   (45⁰)**

1- **C**   **2-B**   **3-D**   **4-D**   **5-D**   **6-B**   **7-B**   **8-D**   **9- C**

10-C   **11-A**   **12-B**   **13-C**   **14-C**   **15**-D

Group two

Ratio calculation: (35⁰)

1- Current ratio = current assets ÷ current liabilities

$$= \frac{(cash, 2350 + M\ Securities\ 4500 + prepaid\ insurance\ 6000 + Account\ receivable\ 4350 + note\ receivable\ 3551 + inventory\ 597}{(account\ payable\ 3456 + wages\ payable\ 2230 + note\ payable\ 3425 + unearned\ revenue\ 4300)}$$

$$= \frac{26721}{13411} = 1.99$$

2- Acid test ratio=Current assets – inventory ÷ current liabilities

$$= \frac{20751}{13411} = 1.55$$

3- Cash ratio= Cash + marketable securities ÷ current liabilities

$$\frac{cash, 2350 + M, Securities\ 4500}{account\ payable\ 3456 + wages\ payable\ 2230 + note\ payable\ 3425 + unearned\ revenue\ 4300} =$$

$$\frac{2350 + 4500}{13411} = 0.51$$

4- Networking capital= Current assets – current liabilities

= 26721 – 13411 = 13310

5- Acid- test ratio =Current assets – inventory ÷ current liabilities

$$= \frac{20751}{13411} = 1.55$$

6- Day sale in receivable = Gross receivable/net sales÷ 365

4350 ÷ 15000/365= 4350÷ 41.09 = 105.08

7- Inventory Turnover

$$=cost\ of\ goods\ sold \div Average\ inventory$$

7500÷ 5970 = 1.256

Comments: (20⁰)

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