



FINAL EXAM

Course # 171021 Analysis of the Corporate Annual Report

based on the electronic .pdf file(s):

Analysis of the Corporate Annual Report

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pages



5 CPE Credit Hours
Accounting & Auditing

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Chapter 1 - Annual Report: The Financial Statements

1. The basic financial statements include a

- Balance sheet, income statement, and statement of changes in retained earnings.
- Statement of financial position, income statement, and statement of changes in retained earnings.
- Balance sheet, statement of financial position, income statement, and statement of changes in retained earnings.
- Balance sheet, income statement, statement of cash flows, and statement of retained earnings.

2. Another name for the balance sheet is the:

- Statement of cash flows
- Statement of earnings
- Statement of financial position
- Retained earnings statement

3. Which of the following types of accounts are not found on the balance sheet?

- Revenues
- Assets
- Liabilities
- Owners' equity

4. The primary purpose of the income statement is to reflect

- The fair value of the firm's assets at some moment in time.
- Operating performance for a specified time period.
- The status of the firm's assets in case of forced liquidation of the firm.
- The firm's potential for growth in stock values in the stock market.

5. Which of the following is an example of operating activities?

- Borrowing
- Investment by owners
- Wages
- Sale of equipment

6. Cash outflows from investing activities include:

- Repurchasing of stock
- Payments to buy fixed assets
- Issuing dividend payments

Payments on accounts payable arising from the initial purchase of goods

7. A statement of cash flows is to be presented in general purpose external financial statements by which of the following?

Publicly held business enterprises only.

Privately held business enterprises only.

All business enterprises.

All business enterprises and not-for-profit organizations.

Chapter 2 - Annual Report: Other Sections of the Report

8. A segment is reportable if any one of the following conditions exists except:

Revenue is 10% or more of total corporate revenue

Operating profit is 10% or more of total corporate operating profit

Identifiable assets are 10% or more of total corporate assets

Foreign operations provide 3% or more of total corporate sales

9. Footnote disclosures usually do not include:

Accounting methods

Statement of changes in stockholders' equity

Inventory pricing

Pension fund

10. The Management's Discussion and Analysis (MD&A) section of an annual report

Includes the company president letter.

Covers three financial aspects of a firm's business: liquidity, capital resources, and results of operations.

Is a technical analysis of past results and a defense of those results by management.

Covers marketing and product line issues.

11. The _____ highlights the concept of a significant deficiency in internal control over financial reporting.

Auditing Standard No. 5

SOX Section 906

Auditing Standard No. 2

US GAAP

Chapter 3 - Analysis of Financial Statements for Liquidity, Asset Utilization and Solvency

12. Factors that an investor considers in evaluating a firm's stock include all except:

- Financial health
- Industry factors
- Number of future investors
- Future outlook of the company

13. In assessing the financial prospects for a firm, financial analysts use various techniques. An example of vertical, common-size analysis is

- An assessment of the relative stability of a firm's level of vertical integration.
- A comparison in financial ratio form between two or more firms in the same industry.
- Advertising expense is 2% greater compared with the previous year.
- Advertising expense for the current year is 2% of sales.

14. Which of the following is an example of liquidity ratios?

- Times interest earned
- Quick ratio
- Return on equity
- P/E ratio

15. Given the following data: Sales = 2000; Cost of goods sold = 1500; Average receivables = 100, calculate the average collection period:

- 24.33
- 18.25
- 137
- 1.33

16. To determine the operating cycle for a retail department store, which one of the following pairs of items is needed?

- Days' sales in accounts receivable and average merchandise inventory.
- Cash turnover and net sales.
- Accounts receivable turnover and inventory turnover.
- Asset turnover and return on sales.

17. What ratio is used to measure a firm's leverage?

- Debt ratio
- Current ratio
- Asset turnover
- Return on equity

Chapter 4 - Analysis of Financial Statements for Profitability and Market Value

18. Gross profit margin is

- Gross profits divided by net sales
- Net sales divided by gross profit
- Sales multiplied by gross profit
- Average assets multiplied by gross profits

19. What ratio is used to measure the profit earned on each dollar invested in a firm?

- Current ratio
- Asset turnover
- Return on sales
- Return on common equity

20. Market value ratios do not include:

- Opportunity values
- Earnings per share
- Price-earnings ratio (multiple)
- Book value per share

21. Book value per share represents the amount of shareholders' equity assigned to each outstanding share of common stock. Which one of the following statements about book value per common share is correct?

- Market price per common share usually approximates book value per common share.
- Book value per common share can be misleading because it is based on historical cost.
- A market price per common share that is greater than book value per common share is an indication of an overvalued stock.
- Book value per common share is the amount that would be paid to shareholders if the company were sold to another company.

22. Calculate earnings per share based on the following information. A company has net income of \$15 million, preferred dividends of \$500,000, outstanding common stock of 10 million, and outstanding preferred stock of 5 million.

- 1.5
- 1.00
- 1.45
- 2.9

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