

Correction of the 2nd semester exam

Exercise 01: Complete the sentences, using the following information:

- 1- A company's **financial year** does not have to begin on 1 January, like the calendar year. **1.5pt**
- 2- If an American company owns a company in Britain, this is a **subsidiary** **1.5pt**
- 3- Multinationals, with companies in lots of different countries, combine all their results in one set of **consolidated financial statements** . **1pt**
- 4- Every entry in a company's accounts must be **verifiable**: there must be a document available showing that it is true. **1pt**

Exercise 02: Complete the sentences below with the appropriate words: **05pts**

- 1- I'm an internal auditor. I **examine** **1pt** ...the company's accounts, to make sure that they are **accurate** **1pt** ..., and that they **comply** **1pt**with company policies and general accounting principles.
- 2- If the control systems aren't adequate, I make **recommendations** **1pt** concerning changes.
- 3- The external auditors check to see if transactions are being **recorded** correctly. **1pt**

Exercise 03: Read the profit and loss account for a UK company. Then say if the statements (sentences) below are true or false. All figures are pounds sterling. **10pts**

| paradigm Manufacturing | | Profit and loss account for the year ended 31 March 20__ . | |
|------------------------------|---------|--|---------|
| Sales | 900,000 | | |
| Cost of goods sold | | 560,000 | |
| Selling and general expenses | | 120,000 | |
| Depreciation | | 18,000 | |
| Operating profit | | | 202,000 |
| Interest payable | | 15,000 | |
| Pre-tax profit | | | 187,000 |
| Exceptional items* | | 57,000 | |
| Corporation tax | | 60,000 | |
| Profit after tax | | | 70,000 |
| Dividends | | 25,000 | |
| Retained earnings | | | 45,000 |

There are 100,000 ordinary shares. Earnings per share: 70 pence. Dividends per share: 25 pence.
*This is for costs related to the closure of our offices in Stockholm.

- 1- The £120,000 for selling and general expenses includes the salaries of the sales force. **True 2pts**
- 2- The £18,000 for depreciation represents an actual amount of money paid out to suppliers. **False 2pts**
- 3- The company has a bank loan and/or is paying interest to holders of its bonds. **True 2pts**
- 4- £57,000 for exceptional items is probably paid out every year. **False. 2pts**
- 5- The company has paid out more to shareholders this year than it has kept for future investment and/or future payouts. **False 2pts**