Answer the following Questions:

Notice: This exam includes three questions presented on two pages.

**Question One (35 marks):**
From the following information, you are required to prepare an income statement for United Bank of Egypt for the year ended December 31, 2007 and to compute EPS. (Arrange the figures in correct sequence to drive the bank’s report of income.):
Interest and fees on loans, L.E.5,600,000, Wages and salaries, L.E.1,300,000, Securities gains (losses), (L.E.96,000), Income Taxes 40%, Interest on investment securities: Treasury securities, L.E.3,400,000 & other securities, L.E.3,800,000, Other operating expenses, L.E.500,000, Interest on trading securities, L.E.2,360,000, Occupancy and equipment expenses, L.E.640,000, Interest on reserve funds sold & securities purchased under resale agreement, L.E.1,600,000, Pensions and other employee benefits, L.E.460,000, Interest on deposits in banks, L.E.240,000, Interest expenses on deposits, L.E.3,800,000, Other operating income, L.E.800,000, Interest on short-term debts, L.E.500,000, Trading profits and commissions, L.E.200,000, Interest on long-term debts L.E.600,000, Service charges on customer deposits, L.E.430,000, Interest on reserve funds purchased and securities sold under repurchase agreement, L.E.1,400,000, Trust department income, L.E.1,270,000, Gross Loans, L.E.6,800,000, Allowance for possible loan losses, L.E.680,000, Provision for possible loan losses is to be at 15%. Outstanding common stock, L.E.60,000,000 (par value L.E.100).

**Question Two (35 marks):**
The Commercial International Bank purchased the following investments on January 1, 2013:

a. Treasury notes, L.E.500,000 face amount, 9% coupon interest, and matures December 31, 2014. Interest due March 31 and September 30. Purchase price, L.E.470,000 plus accrued interest.
b. Treasury bills for L.E.970,000 to mature on September 1, 2013, face amount, L.E.1,000,000.

**Required:** 1- Record the purchase of securities on January 1, 2013, payment was made by a cashier's check.
2- Record the interest earned at the end of January, 2013 and the collection of interest on March 31, 2013.
3- Record the sale of the treasury notes on June 1, 2013 for L.E.495,000.
4- Record the sale of the treasury bills on July 1, 2013 for L.E.990,000.

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**Question Three (30 marks):**
The following are accounting balances from the books of Alexandria Insurance Company at December 31, 2012 for the Life Insurance Branch(L.E.):
- Direct insurance premiums (400,000), Direct Claims (160,000),
- Reserve fund (152,000), Provision for outstanding claims (38,600),
- Real estate expenses (4,300), Producers' wages (18,500),
- Direct commission to producers (52,000),
- Reinsurance premiums accepted (172,000),
- Reinsurance premiums ceded (104,000),
- Reinsurance commission on premiums accepted (20,800),
- Reinsurance claims on premiums accepted (60,000),
- Reinsurance claims on premiums ceded (48,000),
- Reinsurance commission on premiums ceded (14,000),
- Interest on reserve fund withheld on reinsurance ceded (2,200),
- Interest income on loans (10,200),
- Interest income on bank deposits (5,500),
- Real estate rental revenue (14,400),
- Revenues from investment securities (52,000),
- Other revenues (35,500), Gain on sale of securities (6,400).

**Additional information:** Provisions at year end (L.E.): Reserve fund (293,000), Depreciation expense of fixed assets for the year (5,200), Provision for outstanding claims (65,000).

**Required:** 1- Determine the net Surplus (Deficit) of life insurance branch for the year ended December 31, 2012.
2- Prepare the Net Income from Investment Account for that year.

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**Best Wishes**

ALI ABDELKARIM RAWY

A. A. Rawy
Answer the following Questions:
"Good Organization, Longhand Avoidance of Scribble are Appreciated"

**Question No. (1):** (Transportation Problem) (30 Point) (1 Hour)

A company owns four different factories $A_1, A_2, A_3$ and $A_4$ producing a homogeneous commodity which is sold in three different destinations $B_1, B_2$ and $B_3$.

The following table represents the number of unit produced in each factory, the number of demand units for each destination and the profit for each commodity units transported from the set of factories to the set of destinations:

<table>
<thead>
<tr>
<th>Factory</th>
<th>Production unit</th>
<th>Profit unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$B_1$</td>
</tr>
<tr>
<td>$A_1$</td>
<td>2000</td>
<td>1.5</td>
</tr>
<tr>
<td>$A_2$</td>
<td>3500</td>
<td>1.8</td>
</tr>
<tr>
<td>$A_3$</td>
<td>4000</td>
<td>1.7</td>
</tr>
<tr>
<td>$A_4$</td>
<td>15000</td>
<td>1.9</td>
</tr>
<tr>
<td>Demand Units</td>
<td>3000</td>
<td>4000</td>
</tr>
</tbody>
</table>

**Required:**

1) Formulate the transportation problem as a linear programming model.
2) Determine the optimum solution for this transportation problem.

**Question No. (2):** (40 Point) (1 Hour)

**First:** (The Game Theory)

If you have the following pay-off game matrix:

$$
\begin{pmatrix}
1 & 3 & -3 & 1 & -2 \\
-2 & 5 & 4 & -6 & -3
\end{pmatrix}
$$

**Required:**

1- Interpret the meaning of elements for the game matrix.
2- Formulate the game as a LPM for each player.
3- Determine the optimum strategies for each player and the value of the game.
Second : (Network Analysis)
The following table represents the set of different activities for achieving a specific project:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Starting Node</th>
<th>Ending Node</th>
<th>Time Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Optimistic</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>E</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>F</td>
<td>3</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>G</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>H</td>
<td>5</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>I</td>
<td>3</td>
<td>6</td>
<td>4</td>
</tr>
</tbody>
</table>

**Required:**
1) By using PERT technique determine the minimum estimate time for achieving the project.
2) Put the network diagram in a Linear Programming Model.
3) From your preceding result in (2) put the LPM in its canonical and standard form.

**Question No. (3) : (LPM) (30 Point) (1 hour)**

If you have the following LPM:

\[ F(x) = 3X_1 - X_2 \]  \hspace{1cm} \text{(Max)}

**Subject to:**

\[ X_1 + 2X_2 \geq 6 \]

\[ X_1 - X_2 \leq 2 \]

\[ X_2 \leq 3 \]

\[ X_1 \geq 0, \ X_2 \geq 0 \]

**Required:**
1) Solve the LPM graphically and determine the redundant constraints if there are exist and determine the different types of solutions.

2) By Using the suitable simplex method solve the LPM.
3) Determine the dual problem and find the optimum value for its objective function.

**With My Best Wishes....**
Answer the following Questions:

Question No. (1): (An Hour) (35 points)

I: (Transportation Problem):

The following table represents the unit cost transport (L.E) for a homogeneous Commodity from three sources to four destinations, and the supply and the demand units as follows:

<table>
<thead>
<tr>
<th>Destination</th>
<th>B₁</th>
<th>B₂</th>
<th>B₃</th>
<th>B₄</th>
<th>Supply units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source A₁</td>
<td>14</td>
<td>25</td>
<td>45</td>
<td>5</td>
<td>6000</td>
</tr>
<tr>
<td>A₂</td>
<td>65</td>
<td>25</td>
<td>35</td>
<td>55</td>
<td>8500</td>
</tr>
<tr>
<td>A₃</td>
<td>35</td>
<td>3</td>
<td>65</td>
<td>15</td>
<td>18000</td>
</tr>
<tr>
<td>Demand Units</td>
<td>4000</td>
<td>7500</td>
<td>7000</td>
<td>14000</td>
<td></td>
</tr>
</tbody>
</table>

Required:
1- Formulate the transportation problem as a LPM.
2- Determine the optimum solution tableau.

II: (Assignment Problem):

The following table represents the cost (thousand L.E) for assigning the machine 1, 2, 3 and 4 on a three different methods for production A, B and C:

<table>
<thead>
<tr>
<th>Machine Method</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>13</td>
<td>14</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>16</td>
<td>13</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>C</td>
<td>19</td>
<td>12</td>
<td>17</td>
<td>15</td>
</tr>
</tbody>
</table>

Required:
1- Formulate the assignment problem as a LPM.
2- Determine the optimum solution for this problem.
QUESTION NO. (2): (An Hour) (35 points)

I: (Game Theory):
The following matrix represents the pay-off matrix between the two players A and B:

\[
\begin{pmatrix}
  7 & 2 \\
  3 & 5 \\
-3 & -4 \\
  7 & -6 \\
  2 & 6
\end{pmatrix}
\]

Required:
1- Show what is meaning of the different elements of this matrix.
2- Determine the optimum strategy for each player and the value of the game.

II – (Network Analysis)
The following table represents the normal data \{time (week) & cost( thousand L.E )\} and the crash data \{time( week )& cost( thousand L.E )\} for achieving a set of activities for a project:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Normal Data</th>
<th>Crash Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>time</td>
<td>cost</td>
</tr>
<tr>
<td>A(1-2)</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>B(1-3)</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>C(2-4)</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>D(2-3)</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>E(4-6)</td>
<td>11</td>
<td>34</td>
</tr>
<tr>
<td>F(3-5)</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>G(5-6)</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>H(6-7)</td>
<td>3</td>
<td>13</td>
</tr>
</tbody>
</table>

Required:
1- By using PERT/ Cost technique what is the minimum cost for achieving the set of activities for this project in its minimum time.
2- Determine the minimum cost for achieving the project in 29 weeks.
3- Determine the minimum time for achieving the project with 210 thousands L.E total cost.
**Question No. (3):**

Linear Programming Model:

If you have the following LPM:

\[ F(x) = -2x_1 + 3x_2 \quad \text{(Min)} \]

Subject to:

\[ x_1 + 2x_2 \leq 12 \]
\[ -5x_1 + 4x_2 \leq 40 \]
\[ 2x_1 - x_2 \geq 0 \]
\[ 3x_1 + 2x_2 \geq 9 \]
\[ x_1, x_2 \geq 0 \]

**Required**

1. Put the model in its canonical and standard form.
2. Solve the LPM graphically and determine the redundant constraints (if there are exists) and determine the different types of solutions.
3. From your preceding result in (2) determine the dual problem and what the optimum value for its objective function is.

My best wishes
And good luck...
Answer the following questions:

**Question one (10 Marks):**
Determine whether each one of the following statements is true or false:
1- A doctor has a charitable clinic; this activity is not subject to non-commercial tax.
2- An engineer is working in a contracting company against monthly salary L.E. 3000, this amount is subject to tax on non-commercial profits.
3- When determining the tax bracket of non-commercial profits, expenses are considered according to cash basis. Therefore, depreciation is not included in the tax bracket because it is a non-cash expense.
4- Donations to governmental entities are exempted from non-commercial tax without any limit.
5- Authorship and translation profits are exempted from tax on non-commercial activities.
6- Profits of limited liability companies and bequest by share companies are subjected to tax on commercial and industrial activities.
7- Tax approved depreciation rate for computers, software, databases, and information systems is 50% of asset’s cost.
8- When adjusting the net profits of juridical persons to attain the taxable net profits increases in expenses and decreases in revenues are added to net profits because they cause an inflation of the profit figure.
9- General sales tax is a regional tax, as it applies to the commodities and services inside the boundaries of Egypt.
10- The tax rate of general sales tax ranges from 5% till 30%.

**Question Two (30 Marks):**
Ali Mohamed Ali is an engineer who owns an engineering office in Qena. The receipts and payments of the office during 2013 according regular books were as follows:
First Receipts:
- L.E 20,000 fees for engineering consultations, noting that there is another L.E. 5,000 due on one of the clients have not been collected yet.
- L.E. 27,000 fees for building designs, noting that these amount includes L.E. 7,000 fees for designing a building in Saudi.
- 18,000 engineering design fees, noting that this amount includes L.E. 3,000 fees of last year which have collected during the current year.
- L.E. 25,000 the sale price of used engineering equipment which have been sold on 30-6-2013. This equipment was purchased on 1/1/2011 for L.E. 40,000.

Second Payments:
- L.E. 1,000 Engineering syndicate subscription fees.
- L.E. 7,000 salaries and wages for employees (the monthly salaries are L.E. 500).
- L.E. 11,000 the office rent (monthly rent is L.E. 1,000).
- L.E. 800 electricity and water bills.
- L.E. 20,000 the cost of new Engineering equipment purchased on 1/7/2013.
- L.E. 21,000 general and administrative expenses, out of which L.E. 1,000 undocumented expenses.
- L.E. 1,200 donations to Al-Hilal Al-Ahmar society.
- L.E. 200 monthly premium in the syndicate pension fund
- L.E. 1000 annual life insurance premium for the sake of his wife.

Additional information:

- Equipment depreciation rate is 25%.
- The office results for 2011 were L.E. 10,000 losses and for 2012 were L.E. 7,000 profits.

Required
Calculate the taxable non-commercial profit for 2013.

Question Three

The profit and loss account of a private Egyptian Corporation, listed on the stock market, for the year ended on December 31, 2013 showed a net profit of L.E. 1,000,000. The following information is available:

1- The following items were charged to the profit and loss account:
   - L.E. 20,000 bonuses the chairman and board members for managerial work.
   - L.E. 5,000 attendance allowance.
   - L.E. 30,000 advertising campaign that will last for three years starting from 1/1/2013.
   - L.E. 50,000 workers bonuses (salaries of 5 months).
   - L.E. 400 building tax for the building that is owned and occupied by the firm.
   - L.E. 90,000 depreciation on buildings at 6% of cost.
   - L.E. depreciation on furniture noting that the book value of furniture at the beginning of the year was 150,000; accumulated depreciation was 110,000 and the company purchases a new furniture on 1/12/2013.
   -L.E. 30,000 corporate tax of the previous year.
   - L.E. 40,000 donations; half of it to Bank Nasir and the remaining to poor families.

2- The profit and loss account was credited with the following:
   - L.E. 40,000 stock dividend revenue from a listed corporation.
   - L.E. 30,000 capital gains on the sale of a truck purchased for 70,000 and sold for 60,000 and its accumulated depreciation amounts L.E. 45,000.
   -L.E 10,000 recovered bad debts; only half of it had been previously approved by tax administration.

3- The company did not include depreciation for machines, the book value of machines at the beginning of year was 800,000, accumulated depreciation was 600,000 and the company purchased a new machine for 200,000 during the year.

Required
Determine the tax bracket on the income of juridical persons for 2013?
Question Four
Hereunder the details indicated in the books of an industrial producer registered with sales tax administration for the month of September 2013.

1- Total sales of different products amounted 600,000, their details were as follows:
   - L.E. 180,000 from commodity (X) subject to tax at the rate of 10%.
   - L.E. 300,000 from commodity (Y) subject to the tax at the rate of 20%.
   - The rest from commodity (N) exempted from tax.

2- Sales returns during the month amounted to the following:
   - L.E. 50,000 from sales of commodity (X).
   - L.E. 20,000 from the sales of commodity (Y).
   - L.E. 10,000 from the sales of commodity (N).

3- The total purchases (inputs) during the month amounted to L.E. 90,000 as follows (noting that the tax rate on inputs is 10%):
   - L.E. 40,000, purchases subject to tax, used in the production of commodity (X) of which L.E. 10,000 from a seller who is not registered with the administration.
   - L.E. 40,000 taxable purchases used in the production of commodity (Y).
   - L.E. 10,000 purchases exempted from tax and which were used in the production of commodity (N).

Required
Prepare the summary of the general sales tax.

With my Best Wishes
Dr Mohamed Shabeb
Answer the following questions:

**Question one (20 Marks):**

Determine whether each one of the following statements is true or false:

1. By default new workbooks contain three worksheets.
2. An Excel workbook can be created without starting the Excel application.
3. Each worksheet consists of 1,048,576 columns (numbered 1 through 1,048,576) and 16,384 rows (labeled A through XFD).
4. The active cell as a thick black border around it and its address appears in the formula bar.
5. In excel application, the title bar displays the active cell address or the name of the selected cell, range, or object.
6. In the excel application, the status bar is used to display the worksheet in a variety of views, each suited to a specific purpose.
7. A non-adjacent range consists of separate blocks of cells that are selected at the same time.
8. When a range of cells is selected, every cell in the range is highlighted, except for the active cell.
9. To begin a formula in a cell, first type the # symbol.
10. If the column is too narrow, part of the data you enter in the cell will get deleted.
11. Changing the Format of a cell changes the value of the number stored in the cell.
12. If a long value doesn’t fit in a cell, Excel displays a row of * characters.
13. The label classification is used for cells that contain text or for numbers that will not be used in calculations.
14. Fill Series is used to fill a column or row with consecutive data.
15. IRR function returns the internal rate of return where positive and negative cash flows are financed at different rates.
16. DB function Returns the depreciation of an asset for a specified period by using the double-declining balance method or some other method that you specify.
17. The order of the elements in a formula does not affect the final result of the calculation.
18. If the value for C7 is 2; C8 is 4; and F4 is 2, then the result of the equation =C7+C8*F4 is 12.
19. STDEV.P function Estimates standard deviation based on a population.
20. If the value for A2 is 10 and the value of A3 is 2, then, =A2+A3 is a better formula than =10+2 because of flexibility.
Question Two (20 Marks)
Select the best answer:
1) A spreadsheet PROGRAM is defined as
A) a software application used to create and modify a database.
B) a software application used to create and modify text-based documents.
C) a software application used to create and modify video presentations.
D) a software application used to create and modify spreadsheets.

1) A spreadsheet
A) is the core of a slide presentation.
B) is an electronic file that is used to write text and graphics on the web.
C) is an electronic file that contains a grid of columns and rows for related data.
D) is another word for a letter written on a computer.

3) A worksheet is defined as
A) the background colour of a cell.
B) a single spreadsheet that often contains formulas, functions, values, text, and visual aids.
C) the current cell location of the insertion point as indicated by a dark border.
D) an unfinished project.

4) A workbook is defined as
A) a file containing related worksheets
B) an un-editable "picture" of data.
C) the address of the current cell.
D) similar to a spreadsheet but bound rather than electronic.

5- To select an entire column in MS-EXCEL, press?
A) CTRL + C
B) CTRL + Arrow key
C) CTRL + S
D) None of the above

6- In excel worksheet the "title bar":
A) Displays the data or formula stored in the active cell. It can also be used to enter or edit a formula, a function, or data in a cell.
B) Displays the active cell address or the name of the selected cell, range, or object.
C) Displays the name of the workbook and the program.
D) None of the above

7- Which of the following is not a term of MS-Excel?
A) Cells
B) Document
C) Columns
D) None of the above

8- What happens when dollar signs ($) are entered in a cell address? (ex. SB$2:SB$10)?
A) An absolute cell address is created.
B) Cell address will change when it is copied to another cell.
C) The sheet tab is changed.
D) The status bar does not display the cell address.

9- Which of the following causes Excel 2010 to recognize data entered into a cell as text rather than number format?
A) A space
B) Parentheses ( )
C) Forward Slash (/)
D) Percent sign (%)

10- Which is an example of a formula?
A) =ADD(A1:A2)
B) =A1+A2
C) A1+A2
D) SUM(A1:A2)

11- Which is an example of a function?
A) =ADD(A3:A4)
B) =A3-A4
C) =SUM(A3:A4)
D) A1+A2

12- Which of the following syntax is correct regarding to SUM function in Excel?
A) =SUM (A3, C2)
B) =SUM (A1:C9)
C) =SUM (A3:A11, C2:C10)
D) All of the above

13- Which of the following function will use to find the highest number in a series of number?
A) MAX(B1:B3)
B) MAXIMUM (B1:B3)
C) HIGH (B1:B3)
D) HIGHEST(B1:B3)

14- Which function Returns the future value of an initial principal after applying a series of compound interest rates?
A) FV function
B) FVSCHEDULE function
C) DURATION function
D) EFFECT function

15- What does COUNTA () function do?
A) Counts cells having alphabets
B) Counts how many numbers are in the list of arguments
C) Counts how many values are in the list of arguments
D) Counts the number of blank cells within a range
16- The Ofunction that returns TRUE if any argument is TRUE is:
A) AND Function
B) TRUE Function
C) IF Function
D) OR Function

17- The function that rounds a number down to the nearest integer is:
A) CEILING Function
B) FLOOR Function
C) ABS Function
D) INT function

18- The PMT Function:
A) Returns the number of periods for an investment
B) Returns the payment on the principal for an investment for a given period
C) Returns the periodic payment for an annuity
D) None of the above

19- The function that Estimates standard deviation based on the entire population is:
A) STDEV.S
B) STDEV.P
C) MODE
D) MEDIAN

20- The function that returns the most common value in a data set
A) MODE.SNGL function
B) MODE.MULT function
C) MEDIAN function
D) None of the above

Question Three (25 Marks)
Discuss the advantages and limitations of computerized accounting systems?

Question Four (35 Marks)
On June 1, 2013, Alsohagy, an attorney, opened his own legal practice, to be known as Alsohagy Law Office. The business adjusts and closes its accounts at the end of each month. The following trial balance was prepared at June 30, 2013, after 1 month of operations:

<table>
<thead>
<tr>
<th>Account Titles</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>L.E.</td>
<td>L.E.</td>
</tr>
<tr>
<td>Cash</td>
<td>10,060</td>
<td></td>
</tr>
<tr>
<td>Legal Fees Receivable</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Unexpired Insurance</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>1,460</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>26,400</td>
<td></td>
</tr>
</tbody>
</table>
Choose the most appropriate answer for each of the following questions:

1- The audit evidence decisions that are needed to create an audit program include:
   a. Which audit procedures to use.
   b. What sample size to select for a given procedure.
   c. Which items to select from the population and timing.
   d. All of the above.

2- An audit procedure is a detailed instruction that explains the audit evidence to be obtained:
   a. Before the audit.
   b. After the audit.
   c. During the audit.
   d. None of the above.

3- The two determinants of the persuasiveness of evidence are:
   a. Costs and benefits.
   b. Internal and external determinants.
   c. Appropriateness and sufficiency.
   d. None of the above.

4- All the following characteristics affect the reliability, and therefore appropriateness of evidence, **Except**:
   a. Effectiveness of client’s internal control.
   b. Auditor’s direct knowledge.
   c. Auditor’s ability to interpret the generally accepted accounting principles.
   d. Qualifications of individuals providing the information.

5- Examples of objective evidence include the following **Except**:
   a. A letter written by the client’s attorney discussing the likely outcome of outstanding lawsuits against the client.
   b. Confirmation of accounts receivables.
   c. Confirmation of bank balances.
   d. The physical count of securities and cash.

6- Several factors determine the appropriate sample size in audits. The two most important ones are the auditor’s expectation of misstatements and:
   a. The effectiveness of the client’s internal control.
   b. The objectivity of the auditor.
   c. The timeliness of evidence.
   d. None of the above.
7- Which of the following best describes what is meant by generally accepted auditing standards:
   a. Acts to be performed by the auditor.
   b. Procedures to be used to gather evidence to support financial statements.
   c. Audit objectives generally determined on audit engagements.
   d. Measures of the quality of the auditor’s performance.

8- Which of the following types of documentary evidence should the auditor consider the most reliable:
   a. A confirmation of an account payable balance mailed by and returned directly to the auditor.
   b. An audit schedule prepared by the client’s controller and reviewed by the client’s treasurer.
   c. A check, issued by the company and bearing the payee’s endorsement, that is included with the bank statement mailed directly to the auditor.
   d. A sales invoice issued by the client and supported by a delivery receipt from an outside trucker.

9- Which of the following is not a primary purpose of audit documentation:
   a. To provide evidence of the audit work performed
   b. To assist in preparation of the audit report
   c. To coordinate the audit
   d. To support the financial statements

10- During an audit engagement, pertinent data are compiled and included in the audit files. The audit files are primarily considered to be:
   a. Evidence supporting financial statements.
   b. A record to be used as a basis for the following year’s engagement.
   c. Support for the auditor’s representations as to compliance with auditing standards.
   d. A client-owned record of conclusions reached by the auditor who performed the engagement.

11- In fraudulent financial reporting, the overstatement of income could be done through:
   a. Overstatement of liabilities and expenses.
   b. Overstatement of assets and revenues.
   c. Omission of liabilities and expenses.
   d. Both (b) and (c).

12- The Statement on Auditing Standards (SAS) No. 99 described the conditions for fraud arising from fraudulent financial reporting and misappropriation of assets. These conditions include:
   a. Incentives/Pressures.
   b. Opportunities.
   c. Attitudes/Rationalisation.
   d. All of the above.

13- When a client has not applied GAAP consistently from the prior year to the current year, the auditor does not concur with the appropriateness of the change, and the change in GAAP has a material effect on the financial statements, the auditor should issue a(n):
a. Disclaimer
b. Adverse opinion
c. Unqualified opinion
d. Qualified opinion

14- Because of the risk of material misstatement due to fraud, an audit of financial statements in accordance with generally accepted auditing standards should be performed with an attitude of:
   a. Impartial conservatism.
   b. Objective judgement.
   c. Independent integrity.
   d. Professional skepticism.

15- Which of the following characteristics is most likely to heighten an auditor’s concern about the risk of material misstatement due to fraud in an entity’s financial statements:
   a. The entity’s industry is experiencing declining customer demand.
   b. Employees who handle cash receipts are not bonded.
   c. Internal auditors have direct access to the board of directors and the entity’s management.
   d. The board of directors is active in overseeing the entity’s financial reporting policies.

16- If an independent audit leading to an opinion on financial statements causes the auditor to believe that a material misstatement due to fraud exists, the auditor should first:
   a. Consider the implications for other aspects of the audit and discuss the matter with the appropriate level of management.
   b. Make the investigation necessary to determine whether fraud has actually occurred.
   c. Request that management investigate to determine whether fraud has actually occurred.
   d. Consider whether fraud was the result of a failure by employees to comply with existing controls.

17- All the following procedures must be performed by the auditor in order to address the risk of management override of controls, **Except**:
   a. Examine journal entries and other adjustments for evidence of possible misstatements due to fraud.
   b. Inquires of management.
   d. Evaluate the business rationale for significant unusual transactions.

18- The main type(s) of revenue manipulation is(are):
   a. Fictitious revenues.
   b. Premature revenue recognition.
   c. Manipulation of adjustments to revenues.
   d. All of the above.

19- The deliberate understatement of accounts payable results in:
   a. An understatement of purchases.
b. An understatement of goods sold.
c. An overstatement of net income.
d. All of the above.
20-If the fraud by senior management is a material weakness, the auditor’s report on internal control over financial reporting will contain a(n):
   a. Disclaimer
   b. Adverse opinion
   c. Unqualified opinion
   d. Qualified opinion

**Question (2):**

**Listed below are ten technical accounting and auditing terminologies:**

Reperformance      Audit Documentation      Interrogative inquiry      Income Soothing  
Premature revenue recognition      Audit Evidence      Professional skepticism  
Audit Program      Reliability of Evidence      Earning management

**Each of the following ten statements describes one of these technical terms. For each statement, indicate the accounting term described.**

1- Any information used by the auditor to determine whether the information being audited is stated in accordance with the established criteria.
2- The list of audit procedures for an audit area or an entire audit.
3- The degree to which evidence can be believable or worthy of trust.
4- Is the auditor’s independent tests of client accounting procedures or controls that were originally done as part of the entity’s accounting and internal control system.
5- Is the principle record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement.
6- Is a form of earnings management in which revenues and expenses are shifted between periods to reduce fluctuations in earnings.
7- Is a technique used to determine if the interviewee is being deceptive or purposefully omitting disclosure of key knowledge of facts, events or circumstances.
8- Is an attitude of the auditor that neither assumes management is dishonest nor assumes unquestioned honesty.
9- Is the recognition of revenue before accounting standards requirements for recording revenue have been met.
10- Is deliberate actions taken by management to meet earnings objectives.
**Question (3):**

*State whether each of the following statement is True (T) or False (F) and comment on the false statements.*

1. The appropriateness of evidence can be improved by selecting a larger sample size or different population items.
2. Evidence obtained from a source within the organisation is more reliable than the one obtained from outside.
3. Confirmation of accounts receivable is not required by international auditing standards.
4. Physical examination is considered to be sufficient evidence to verify that existing assets are owned by the client.
5. To be considered reliable, confirmations must be controlled by the client from the time they are prepared until they are returned.
6. The three most expensive types of evidence are observation and inquires of the client and recalculation, while the two least-expensive types of evidence are physical examination and confirmation.
7. Audit documentation prepared during the engagement, including schedules prepared by the client for the auditor, is the property of the auditor.
8. The Sarbanes-Oxley Act requires auditors of public companies to prepare and maintain audit files and other information related to any audit report in sufficient detail to support the auditor’s conclusions, for a period of not less than six years.
9. Although, the auditor’s goal is to obtain a sufficient amount of evidence at the lowest cost, cost is not an adequate justification for omitting a necessary procedure or not gathering an adequate sample size.
10. The big-4 international accounting firms are Deloitte & Touche, Arthur Andersen, Ernst & Young and KPMG.
11. There is no difference between fraudulent financial reporting and misappropriation of assets.
12. Fraud is more prevalent in smaller and not-for-profit organisations because it is more difficult for these entities to maintain adequate separation of duties.
13. When assessing risk factors for the misappropriations of assets greater emphasis is placed on individual incentives and opportunities for theft.
14. In horizontal analysis, the financial statement numbers are converted into percentages, while in vertical analysis, the account balance is compared to the previous period, and the percentage change in the account balances for the period is calculated.
15. Gross margin percentage and inventory turnover, often help uncover inventory fraud. In this regard, the gross profit percentage did not signal the existence of fictitious inventories, but the significant decrease in inventory turnover was a sign of fictitious inventories.
16. The fraud resulting from the capitalisation of operating expenses as fixed assets can be detected relatively easy if the auditor examines evidence supporting fixed asset additions.
17- The two most common areas of payroll fraud are the creation of fictitious employees and misstatement of individual payroll hours. The existing of fictitious employees can usually be prevented by use of time clocks or approval of payroll hours, while overstatement of hours is typically prevented by separation of the human resource and payroll functions.

18- If the auditor believes that senior management may be involved in the fraud, the auditor should discuss the matter directly with the audit committee.

19- One of the most difficult fraud to detect is when goods are shipped on credit to customer, while it is much easier to detect fraud resulting from sales that are not recorded and the cash from sales was stolen.

20- Although the financial statements of all companies are potentially subject to manipulation, the risk is greater for companies in industries where significant judgements and estimates are involved.

With best Wishes

Dr. Ahmed Hassan
Question (1):
Choose the most appropriate answer for each of the following questions:

1. What are the two criteria used to determine whether information is relevant?
   a. Expected future revenues or costs and a difference between alternatives.
   b. Expected future revenues and differences in costs.
   c. Marginal costs and marginal revenue.
   d. Incremental and fixed costs.

2. Relevant costs that will not continue if an ongoing operation is changed or deleted are referred to as:
   a. Period costs.
   b. Avoidable costs.
   c. Committed costs.
   d. Step costs.

3. B&S, a linoleum retailer, decides it will charge lower prices to the public than its competitors do so that it can become the only linoleum dealer in a 20-mile radius of town. B&S is engaging in:
   a. Discriminatory pricing.
   b. Predatory pricing.
   c. Marginal pricing.
   d. Contribution pricing.

4. The cost-plus pricing formula that takes into consideration all costs — fixed, variable, and manufacturing, as well as selling and administrative costs — is called the percentage of:
   a. Full costs.
   b. Variable manufacturing costs.
   c. Total variable costs.
   d. Absorption costs.

5. The price that a firm charges for a unit will influence the quantity of units it sells. This is an example of:
   a. Imperfect competition.
   b. Perfect competition.
   c. Price elasticity.
   d. Predatory pricing.
Question (2):

First:
An Accounting firm is preparing to bid for a consulting job. Although the firm will judge the market in order to finalise the bid, they asked you to prepare a cost analysis to help them in the bidding process. You have been given the following estimated costs for the consulting job to be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material and Supplies, at cost</td>
<td>L.E.45,000</td>
</tr>
<tr>
<td>Hourly pay for consultants, 3,000 hours @ L.E.40 per hour</td>
<td>L.E.120,000</td>
</tr>
<tr>
<td>Fringe benefits for consultants, 2,000 @ L.E.15 per hour</td>
<td>L.E.30,000</td>
</tr>
<tr>
<td>Total Variable Costs</td>
<td>L.E.195,000</td>
</tr>
<tr>
<td>Fixed costs allocated to the job:</td>
<td></td>
</tr>
<tr>
<td>Based on labour, 2,500 hours @ L.E.10 per hour</td>
<td>L.E.25,000</td>
</tr>
<tr>
<td>Based on materials and supplies, 60% of 45,000</td>
<td>L.E.27,000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>L.E.247,000</strong></td>
</tr>
</tbody>
</table>

You have been told that of the L.E.52,000 allocated fixed costs, L.E.45,000 will be incurred even if the job is not secured (unavoidable costs). Normally, this accounting firm bids jobs at the sum of:

-100% of the estimated materials and supplies,
-L.E.80 per estimated labour hour.

**Required:**

1. Prepare a bid using the firm’s normal formula.
2. Prepare a minimum bid equal to the avoidable costs that are expected to be incurred to complete the job
3. Prepare a bid that will cover full costs plus a mark-up for profit equal to 25% of full cost.
Second:
El Araby Corporation produces and sells mobile phone accessories. A mobile leather case was proved successful in the market, currently the company faces a challenge as competitors have come out with comparable cases. El Araby has been charging L.E.90 wholesale for the case, and sales have fallen from 10,000 units last year to 7,000 units this year. The product manager in charge of this frame is considering lowering the price to L.E.75 per case. He believes that sales will rebound to 10,000 units at the lower price, but they will fall to 6,000 units at the L.E.90 price. The unit variable cost of producing and selling the case is L.E.50, and L.E.200,000 of fixed cost is assigned to the cases.

Required
1. Assuming that the only prices under consideration are L.E.75 and L.E.90 per case, which price will lead to the largest profit by El Araby? Explain why.
2. What subjective considerations might affect your pricing decision?

Question (3):
First:
El Masry Corporation has adopted the following policies with regard to merchandise purchase and inventory. At the end of any month, the inventory should be L.E.18,000 plus 90% of the cost of goods to be sold during the following month. The cost of merchandise sold averages 60% of sales. Purchase terms are generally net 30 days. A given month’s purchases are paid as follows: 30% during that month and 70% during the following month. Purchases in September had been L.E.150,000 and the inventory on September 30 was higher than planned at L.E.210,000. The manager was not satisfied because the inventory was too high. Sales are expected to be October, L.E.300,000, November, L.E.290,000; December L.E.340,000.
**Required:**

1. Compute the amount by which the inventory on September 30 exceeded the company’s policies.
2. Prepare budget schedules for October, November and December for purchases.
3. Prepare budget schedules for October, November and December for disbursement for purchases.

**Second:**

The following information was extracted from the records of a book shop. Planned cash balance, April 2014: L.E.70,000; Customer receivables as of April 30: L.E.530,000, where L.E.80,000 from March sales and L.E.450,000 from April sales; Accounts payable April 30, L.E.400,000; Merchandise purchased for May: L.E.450,000, 35% paid in month of purchase, 65% paid in the following month; Payrolls due in May: L.E.85,000; Other expenses for May, payable in May L.E.50,000; Accrued taxes for May, payable in July L.E.10,000; Bank note due May 10 L.E.90,000 plus L.E.7,500 interest; Depreciation for May L.E.3,000; Two-year insurance policy due May 14 for renewal L.E.2,000, to be paid in cash; Sales for May L.E.1,000,000, 60% collected in month of sale, 30% in next month and 10% in the third month.

The manager of this shop asks you to prepare a cash budget showing expected cash receipts and disbursements for the month of May and the cash balance expected as of May 31, 2014.

*Best Wishes*

*Dr. Ahmed Hassan*
Answer the following Questions:

Notice: This exam includes three questions presented on two pages.

**Question One (35 marks):**
From the following information, you are required to prepare an income statement for United Bank of Egypt for the year ended December 31, 2007 and to compute EPS. (Arrange the figures in correct sequence to drive the bank’s report of income.):
Interest and fees on loans, L.E.5,600,000, Wages and salaries, L.E.1,300,000, Securities gains (losses), (L.E.96,000), Income Taxes 40%, Interest on investment securities: Treasury securities, L.E.3,400,000 & other securities, L.E.3,800,000, Other operating expenses, L.E.500,000, Interest on trading securities, L.E.2,360,000, Occupancy and equipment expenses, L.E.640,000, Interest on reserve funds sold & securities purchased under resale agreement, L.E.1,600,000, Pensions and other employee benefits, L.E.460,000, Interest on deposits in banks, L.E.240,000, Interest expenses on deposits, L.E.3,800,000, Other operating income, L.E.800,000, Interest on short-term debts, L.E.500,000, Trading profits and commissions, L.E.200,000, Interest on long-term debts L.E.600,000, Service charges on customer deposits, L.E.430,000, Interest on reserve funds purchased and securities sold under repurchase agreement, L.E.1,400,000, Trust department income, L.E.1,270,000, Gross Loans, L.E.6,800,000, Allowance for possible loan losses, L.E.680,000, Provision for possible loan losses is to be at 15%. Outstanding common stock, L.E.60,000,000 (par value L.E.100).

**Question Two (35 marks):**
The Commercial International Bank purchased the following investments on January 1, 2013:

a. Treasury notes, L.E.500,000 face amount, 9% coupon interest, and matures December 31, 2014. Interest due March 31 and September 30. Purchase price, L.E.470,000 plus accrued interest.
b. Treasury bills for L.E.970,000 to mature on September 1, 2013, face amount, L.E.1,000,000.

Required: 1- Record the purchase of securities on January 1, 2013, payment was made by a cashier’s check.
2- Record the interest earned at the end of January, 2013 and the collection of interest on March 31, 2013.
3- Record the sale of the treasury notes on June 1, 2013 for L.E.495,000.
4- Record the sale of the treasury bills on July 1, 2013 for L.E.990,000.

Question Three (30 marks):
The following are accounting balances from the books of Alexandria Insurance Company at December 31, 2012 for the Life Insurance Branch (L.E.):
- Direct insurance premiums (400,000), -Direct Claims (160,000),
- Reserve fund (152,000), - Provision for outstanding claims (38,600),
- Real estate expenses (4,300), -Producers’ wages (18,500),
- Direct commission to producers (52,000),
- Reinsurance premiums accepted (172,000),
- Reinsurance premiums ceded (104,000),
- Reinsurance commission on premiums accepted (20,800),
- Reinsurance claims on premiums accepted (60,000),
- Reinsurance claims on premiums ceded (48,000),
- Reinsurance commission on premiums ceded (14,000),
- Interest on reserve fund withheld on reinsurance ceded (2,200),
- Interest income on loans (10,200),
- Interest income on bank deposits (5,500),
- Real estate rental revenue (14,400),
- Revenues from investment securities (52,000),
- Other revenues (35,500), - Gain on sale of securities (6,400).

Additional information: Provisions at year end (L.E.): Reserve fund (293,000), Depreciation expense of fixed assets for the year (5,200), Provision for outstanding claims (65,000).

Required: 1- Determine the net Surplus (Deficit) of life insurance branch for the year ended December 31, 2012.
2- Prepare the Net Income from Investment Account for that year.

Best Wishes******  ALI ABDELKARIM RAWY

A·A Raw
First Question
Manchester Company has two products A and B. The unit sale price of product A is $100 and it has a unit variable cost $60. The unit sale price of product B is $150 and it has a unit variable cost $90. The demand is for more units than the company can produce. There are only 30000 machine-hours of manufacturing capacity available. Five units of product A can be produced in one machine hour while only three units of product B can be produced in the same time (one machine hour).

Instructions
Compute the total contribution margin for 30000 machine-hours for product A and product B to determine which product the company should choose.

Second Question
The income statement of the Leeds Company for year ended 31/12/2011 as follows:

Sales $10,000,000

Cost of goods sold 7,000,000
   Gross profit 3,000,000

Selling & administrative expenses 2,000,000
   Operating income $1,000,000

Additional Information
1- Total sales were 1000000 units.
2- Fixed manufacturing costs were $2000000 and the fixed Selling & administrative costs were $1200000
3- Sales commission was 3% of sales and included in Selling and administrative expenses.
4- Near the end of the year, the company received an especial offer of 50000 units at special sale price of $7 each. If the company accepts the order, it can avoid paying the sales commission, but the fixed manufacturing costs will be increased by $25000. No effect on fixed Selling & administrative expenses.

Instructions
Prepare an analysis to help the company for tacking a right decision, showing:
1- The total operating income without special order;
2- The operating income (or loss) of special order,
3- And the total operating income with special order.
4- What are the qualitative factors that would affect your decision?
Third Question

Colchester Company makes an electronic component for its product. Production costs for 100,000 units of the component are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total costs for 100,000 units</th>
<th>Cost per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>$500000</td>
<td>5</td>
</tr>
<tr>
<td>Direct labor</td>
<td>300000</td>
<td>3</td>
</tr>
<tr>
<td>Variable factory overhead</td>
<td>400000</td>
<td>4</td>
</tr>
<tr>
<td>Fixed factory overhead</td>
<td>300000</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total manufacturing costs</strong></td>
<td><strong>1500000</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

Another manufacturer has offered to supply the components at a price of $14 each. If the company discontinued its production of the component, fixed overhead will be decreased by $100000.

Instructions
1- Assume that the machines now used to make the component will become idle if the components are purchased. Should the company buy or make the components?
2- Assume that the machines now used to make the component are fully depreciated and have no residual value. And continuing making the components requires new machines at total cost of $1500000 with estimated useful life 5 years (no residual value). Should the company buy or make the components?
3- List three qualitative factors that would affect your decision.

Fourth Question

The following data regarding Liverpool Company is as follows:

<table>
<thead>
<tr>
<th></th>
<th><strong>Old Equipment</strong></th>
<th><strong>New Equipment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Useful life, in years</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Current age, in years</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Useful life remaining, in years</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Original cost</td>
<td>$24000</td>
<td>$30000</td>
</tr>
<tr>
<td>Accumulated depreciation (old)</td>
<td>9000</td>
<td>0</td>
</tr>
<tr>
<td>Disposal (sale) value now (old)</td>
<td>7000</td>
<td>-</td>
</tr>
<tr>
<td>Disposal value in 5 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual cash operating costs</td>
<td>12000</td>
<td>8000</td>
</tr>
</tbody>
</table>

The manager is trying to decide whether to replace the old equipment. Because of rapid changes in technology, he expects the new equipment to have only a five-year useful life.

Instructions
1- Tabulate a cost comparison that includes both relevant and irrelevant items for the next five years together.
2- Tabulate a cost comparison of all relevant items for the next five years together.
3- Which tabulation is clearer, one in requirement 1 or 2?
Fifth Question

Kent wholesaler is preparing its sales and purchases budgets for the second quarter of 2012. The data regarding these budgets as follows:

1- Expected sales are: $500,000 in April; $600,000 in May; $700,000 in June and $800,000 in July. Sales are 10% cash and 90% on credit. 50% of credit sales are collected in the month of sale, 30% in the following month and 20% in the next following month. Sales in February were $400,000 and in March were $500,000.

2- The sale price is determined at cost plus mark up 25%.

3- Ending inventory is 20% of the cost of goods sold for the following month.

4- Purchases in February were $400,000 and in March were $450,000. Purchases are paid as follows; 20% in the month of purchase, 50% in the following month and 30% in the next following month.

Instructions
1- Prepare a sale budget and cash collections from sales budget for April, May and June 2012.
2- Prepare a purchase budget and cash payments for purchases budget for April, May and June 2012.

Best Wishes
First Question

Determine if the following phrases are true or false;

a- Non-commercial profession tax requires a practice of the profession in Egypt.
b- Juridical person tax is applied to juridical persons, non-resident in Egypt regarding their profits realized in Egypt by their establishments.
c- Juridical person tax is applied to the units established by the local government with regard to profits of taxable activities they exercise.
d- General sales tax is a direct tax.
e- General sales tax is non-refundable tax.

Second Question

The following information related to a certified accountant office for year ended 31/12/2011:

First: Collections during year 2011:
1- L.E 50000; auditing fees for some Egyptian companies in 2010.
2- L.E 60000; fees for designing a cost system for a company in Saudi Arabia.
3- L.E 40000; received in advance for designing an accounting system to a Kuwaiti company works in Egypt.
4- L.E 50000; fees of feasibility studies which were done in 2011 (the total accrued amount is L.E 80000).
5- L.E 32000; auditing fees received in advance for services will be rendered in 2012.
6- L.E 5000; sale value of old furniture (taxable book value L.E 7000).

Second: Payments during year 2011:
1- L.E 33000; salaries paid to assistants (monthly salaries L.E 3000).
2- L.E 12000; travelling expenses to Saudi Arabia.
3- L.E 5500; stationary (the remaining value at the end of 2011 is 500).
4- L.E 25000; cost of new furniture purchased on 1/1/2011 (accounting depreciation rate is 10% and taxable depreciation rate is 20%).
5- L.E 500; syndicate subscription.
6- L.E 1000; subscription in syndicate pension fund.
7- L.E 3000; subscription in a sport club.
8- L.E 9000; car expenses which used in office and private activities.
9- L.E 15000; rent expense (monthly rent L.E 1000).
10- L.E 6000; donations of which L.E 1000 paid to poor families, and the rest to an Egyptian charity approved by the state.
11- L.E 3000; annual life insurance premium in favor of his wife and minor children.
12- L.E 5000; undocumented expenses.

Required

Determine the taxable net profit for year ended 31/12/2011.
**Third Question**

A private Egyptian corporation has a stockholder's equity on 1/1/2010 as follows:

- **Capital stock**       L.E 3000000  
- **Additional paid in capital**  1500000  
- **Legal reserve**       1000000  
- **Retained earnings**    2500000  

  **Total stockholder's equity**  8000000

In addition, the income statement for the year ended on 31/12/ 2010 showed an accounting net profit of L.E 1200,000. The accounting net profit allocated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting net profit</strong></td>
<td>L.E 1200000</td>
</tr>
<tr>
<td><strong>Less</strong></td>
<td></td>
</tr>
<tr>
<td>1- Legal reserve</td>
<td>120000</td>
</tr>
<tr>
<td>2- Payments to shareholders and workers</td>
<td>108000</td>
</tr>
<tr>
<td>3- Bonus to board of directors</td>
<td>450000</td>
</tr>
<tr>
<td></td>
<td>630000</td>
</tr>
<tr>
<td><strong>The balance to be transferred to the coming year</strong></td>
<td>567000</td>
</tr>
</tbody>
</table>

Examining of the accounting net profit revealed the following:

**First: the following items are credited (as revenues) to the income summary:**
1- L.E 30000; stock dividend revenues.  
2- L.E 7000; gain on sale of securities.

**Second: the following items are debited (as expenses) to the income summary:**
1- L.E 50000; attendance allowances paid to members of board of directors and shareholders for attending the annual meeting.
2- L.E 20000; bad debts expenses of which L.E 15000 only were approved by the tax authority.
3- L.E 25000; allowance for doubtful accounts.
4- L.E 2000; capital loss on sale of an old machine (the taxable book value was L.E 15000)
5- L.E 60000; depreciation expenses (taxable depreciation expense is L.E 80000).
6- L.E 120000; total cost of advertising campaign for four years. The amount was paid on 1/7/2010.
7- L.E 50000; juridical person tax for previous year.
8- L.E 1200000; interest expenses on loans which amounted to L.E 4000000 at annual interest rate 30% (the interest rate declared by the central bank is 10%).
9- L.E 50000; donations to an Egyptian charity approved by the state.

**Required**
Determine the taxable net profit for year ended 31/12/2010.
Fourth Question

A manufactured company keeps regular books and is registered with the Sales Tax Administration. The following information is available for month of May:

1- Sales:
   a. L.E 800000; total sales of commodity A. Trading discount 5%. Sales tax 10%.
   b. L.E 700000; total sales of commodity B, which included 10000 transportation expenses. Sales tax 10%.
   c. L.E 900000; total sales of commodity C, of which L.E 300000 were sold in local market and the rest was exported abroad. Sales tax 5%.

2- Sales returns:
   a. L.E 200000; sales returns of commodity A.
   b. L.E 50000; sales returns of commodity B.
   c. L.E 60000; sales returns of commodity C (local market).

3- Purchases:
   a. L.E 450000; total purchases of commodity A, of which L.E 150000 from unregistered supplier. Sales tax 10%.
   b. L.E 440000; total purchases of commodity B. Trading discount 5%. Sales tax 5%.
   c. L.E 360000; total imported purchases of commodity C, which were not included custom duties amounted to L.E 120000. Sales tax 5%.

4- Purchases returns:
   L.E 40000; purchases returns of commodity B.

Required
Determine the Sales tax due for month of May.

Best Wishes
Answer the following Questions:

**Question One (30 marks):**
From the following information, you are required to prepare an income statement for United Bank of Egypt for the year ended December 31, 2009 and to compute EPS.
Interest and fees on loans L.E.122,000,000, Interest and dividends on securities L.E.24,000,000, Non interest income and fees L.E.14,000,000, Salaries, wages, and fees L.E.20,000,000, Overhead expenses L.E.10,000,000, Interest paid on deposits L.E.98,000,000, Interest paid on nondeposit borrowings L.E.12,000,000, ALL 15% (beginning balance L.E.2,000,000), Total loans L.E.40,000,000, Other noninterest expenses L.E.6,000,000, Securities gains (losses) L.E.2,000,000, Income Taxes 20%, Outstanding common stock, L.E.100,000,000 (par value L.E.100).

**Question Two (30 marks):**
Alexandria bank buys and sells debt and equity securities as investments. The following transactions were completed during 2011. The bank's fiscal year-end is December 31.
♥ October 1: Purchased xyz corporation 10% bonds for L.E.6 million (face amount). Interest earned is recorded monthly and coupon due September 30 and March 31.
♥ December 22: Acquired two new investments costing:
  ABC corporation Shares L.E.2,500,000 and LMN corporation Shares L.E.2,000,000
♥ December 31: Sold xyz corporation bonds for L.E.6,050,000.
♥ December 31: The market prices of the investments are: ABC L.E.2,300,000 and LMN L.E.2,000,000.

**Required:**
- Prepare the journal entries to record the above transactions assuming that the investments are classified as available for sale.
- Show the effect of the above on the Bank's balance sheet as of December 31, 2011.

**Question Three (40 marks):**
The following are the transactions performed by National Insurance Company (Life Insurance Branch) during the year ended December 31, 2011, noting that the company has an agreement with Misr insurance company to reinsure 25% of its life policies with it.

A.A. Rawly
1. The net premiums for policies concluded during the month totalled L.E.1,000,000.
2. Reinsurance premiums accepted totalled L.E.400,000.
3. Production commission due to agents and producers on direct premiums totalled 10%. Reinsurance commission on premiums accepted totalled 10%. Reinsurance commission on premiums ceded totalled 10%.
4. The net premiums for renewed policies during the year totalled L.E.200,000.
5. Direct premiums collected from the new and renewed policies during the year totalled L.E.900,000.
6. Commission paid to agents and producers during the year totalled 80% of the due commission.
7. Direct claims during the year totalled L.E.260,000
8. Reinsurance claims on premiums ceded represents 25% of the direct claims and the reinsurance claims on premiums accepted from ceding companies totalled L.E.90,000.
9. Total claims paid L.E.250,000.
10. Reinsurance commission on premiums ceded L.E.30,000 and reinsurance commission on premiums accepted L.E.20,000.
11. Interest on reserve fund withheld on reinsurance transactions ceded L.E.3,000 and accepted L.E.5,000.

**Required:**
(1) Prepare the general journal entries for the above transactions.
(2) Using the information provided in the above transactions and the additional information provided below, prepare the Revenues and Expenses Account for the year ended December 31, 2011, life insurance branch.

**Additional information:**
Agents and producers wages L.E.25,000, Production expenses L.E.45,000, Interest income on loans L.E.20,000, Interest income on bank deposits L.E.10,000, Real estate rental revenue L.E.30,000, Real estate expenses L.E.8,000, Revenue from investment securities L.E.55,000, Other revenues L.E.45,000, Other expenses L.E.60,000, Loss on sale of securities L.E.40,000, Computer center expenses L.E.12,000, Reserve Fund (beginning of year L.E.300,000 and ending of year L.E.250,000), Provision for outstanding claims (beginning of year L.E.50,000 and ending of year L.E.100,000), and Depreciation expenses of fixed assets for the year L.E.10,000.

**Best Wishes**

**ALI ABDELKARIM RAWY**

**A. A. Rawy**
The First Question:
Presented here are the accounts of Town and Country Realty Corporation for the year ended December 31, 2011

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 6,000</td>
<td>Common stock</td>
<td>$ 83,000</td>
</tr>
<tr>
<td>Note payable</td>
<td>26,000</td>
<td>Accounts payable</td>
<td>13,000</td>
</tr>
<tr>
<td>Tax expense</td>
<td>2,400</td>
<td>Accounts receivable</td>
<td>4,800</td>
</tr>
<tr>
<td>Dividends</td>
<td>26,000</td>
<td>Advertising expense</td>
<td>14,000</td>
</tr>
<tr>
<td>Rent expense</td>
<td>18,000</td>
<td>Building</td>
<td>133,900</td>
</tr>
<tr>
<td>Salary expense</td>
<td>68,000</td>
<td>Cash</td>
<td>8,000</td>
</tr>
<tr>
<td>Salary payable</td>
<td>1,400</td>
<td>Equipment</td>
<td>20,000</td>
</tr>
<tr>
<td>Service revenue</td>
<td>195,000</td>
<td>Insurance expense</td>
<td>2,300</td>
</tr>
<tr>
<td>Supplies</td>
<td>6,000</td>
<td>Interest expense</td>
<td>9,000</td>
</tr>
</tbody>
</table>

Requirements:
2. Prepare the statement of Owner's Equity.
3. Prepare the Balance Sheet.

The Second Question:
The records of Cairo Corporation show the following information concerning the movement of material (X) over March 2011:

In quantities:
- 2 / 3 500 units at a price of $ 8 per unit.
- 7 / 3 600 units at a price of $ 10 per unit.
- 10 / 3 400 units at a price of $ 12 per unit.
- 21 / 3 200 units at a price of $ 14 per unit.

Out quantities:
- 8 / 3 400 units, order No. 444.
- 11 / 3 500 units, order No. 444.
- 24 / 3 300 units, order No. 444.
- 28 / 3 400 units, order No. 444.

Required: What is the value of ending inventory of raw materials, using the (Last in First Out) method?

The Third Question:
Mohamed Corporation consists of 3 branches A, B, and C. The records show the following alternatives as follows:

<table>
<thead>
<tr>
<th>Branches</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative/Units</td>
<td>50,000</td>
<td>40,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>
Given that:
1- Selling price per unit is $ 50.
2- Variable cost per unit is $ 30.
3- Total fixed cost is $ 1,500,000.
4- The financial policy of the corporation is to allocate the half of total fixed cost among the branches equally and the other half consider as special costs for specific branch A ($200,000), B ($200,000) and C ($350,000). The top management thinks about canceling branch (C) because it generates continuous loss.

Required: What is your technical opinion concerning canceling or keeping the branch (C)?

The Fourth Question:
The following items appeared in the records of Cairo Inc., for a current year:

<table>
<thead>
<tr>
<th>Item</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>183,000</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>304,000</td>
</tr>
<tr>
<td>Capital stock</td>
<td>571,000</td>
</tr>
<tr>
<td>Depreciation-manufacturing</td>
<td>103,000</td>
</tr>
<tr>
<td>Direct labor</td>
<td>482,000</td>
</tr>
<tr>
<td>Finished goods inventory, January 1</td>
<td>160,000</td>
</tr>
<tr>
<td>Finished goods inventory, December 31</td>
<td>147,000</td>
</tr>
<tr>
<td>Heat, light, and power-plant</td>
<td>39,000</td>
</tr>
<tr>
<td>Insurance-manufacturing plant</td>
<td>48,000</td>
</tr>
<tr>
<td>Marketing costs</td>
<td>272,000</td>
</tr>
<tr>
<td>Miscellaneous costs</td>
<td>12,000</td>
</tr>
<tr>
<td>Plant maintenance and repairs</td>
<td>40,000</td>
</tr>
<tr>
<td>Prepaid insurance, January 1</td>
<td>24,000</td>
</tr>
<tr>
<td>Property taxes-manufacturing</td>
<td>34,000</td>
</tr>
<tr>
<td>Direct materials purchases</td>
<td>313,000</td>
</tr>
<tr>
<td>Direct material inventory, January 1</td>
<td>102,000</td>
</tr>
<tr>
<td>Direct material inventory, December 31</td>
<td>81,000</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>2,036,000</td>
</tr>
<tr>
<td>Supervisory and indirect labor</td>
<td>127,000</td>
</tr>
<tr>
<td>Supplies and indirect materials</td>
<td>14,000</td>
</tr>
<tr>
<td>Work in process inventory, January 1</td>
<td>135,000</td>
</tr>
<tr>
<td>Work in process inventory, December 31</td>
<td>142,000</td>
</tr>
</tbody>
</table>

Required: Prepare cost of goods manufactured and sold statement, using the full-absorption costing method

With My Best Wishes
Given that:
1- Selling price per unit is $50.
2- Variable cost per unit is $30.
3- Total fixed cost is $1,500,000.
4- The financial policy of the corporation is to allocate the half of total fixed cost among the branches equally and the other half consider as special costs for specific branch A ($200,000), B ($200,000) and C ($350,000). The top management thinks about canceling branch (C) because it generates continuous loss.

Required: What is your technical opinion concerning canceling or keeping the branch (C)?

The Fourth Question:
The following items appeared in the records of Cairo Inc., for a current year:

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<tr>
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<td>135,000</td>
</tr>
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<td>142,000</td>
</tr>
</tbody>
</table>

Required: Prepare cost of goods manufactured and sold statement, using the full-absorption costing method

With My Best Wishes
Question No. (1): (35 marks) (1 Hour)

(A): The number of weekly customer complaints are monitored at a large hotel. Complaints have been recorded over the past ten weeks as in the following table:

<table>
<thead>
<tr>
<th>Week</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of complaints</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

Required: With 99.7% confidence level construct the C chart for the number of weekly customer complaints. Plot the data on the statistical quality control chart? Comment?

(B): In a specific Bank, if the numbers of customers arrive to the window for the saving account with a poison distribution with mean 36 customer /hour. And the service time for the customer have an exponential distribution with 0.025 hour.

Required:
1- In one line, determine the characteristics of this queuing model.
2- Determine the utilization factor (\( \rho \)), the 1st three steady states probabilities and the measures of effectiveness of this system.

(C): If you have the following pay-off matrix:

\[
\begin{pmatrix}
2 & 1 \\
6 & 7 \\
9 & -7
\end{pmatrix}
\]

Required:
1- Interpret the two element of the 1st row.
2- Determine the optimum strategies for the two players.
Question No. (2): (35 marks)  (1 Hour)

(A): Consider the transportation problem in which three factories (sources) A₁, A₂ and A₃ supply four stores (destinations) B₁, B₂, B₃ and B₄ with a homogeneous commodity. The following table represents the cost (L.E.) per unit commodity transported from the set of factories to the set of stores and the number of supply and demand units from the set of factories and stores respectively:

<table>
<thead>
<tr>
<th>Stores</th>
<th>Factories</th>
<th>B₁</th>
<th>B₂</th>
<th>B₃</th>
<th>B₄</th>
<th>Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>A₁</td>
<td>13</td>
<td>14</td>
<td>13</td>
<td>20</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>A₂</td>
<td>16</td>
<td>13</td>
<td>20</td>
<td>12</td>
<td>12000</td>
<td></td>
</tr>
<tr>
<td>A₃</td>
<td>19</td>
<td>12</td>
<td>17</td>
<td>15</td>
<td>15000</td>
<td></td>
</tr>
<tr>
<td>Demand units</td>
<td>8000</td>
<td>9000</td>
<td>10000</td>
<td>8000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Required:
1- Formulate the transportation problem as a LPM?
2- By using the least cost technique and the stepping stone method determine the optimal solution.

(B): A specific project consists of three activities A, B and C. The following table represents the normal data (time (by months) and cost (by thousands L.E.)) and the crash data with the same measurements for two alternatives:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Start Event</th>
<th>End Event</th>
<th>Normal data</th>
<th>Crash data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>time</td>
<td>cost</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>2</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>3</td>
<td>13</td>
<td>40</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>4</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>Σ</td>
<td>37</td>
<td>118</td>
<td>30</td>
<td>164</td>
</tr>
</tbody>
</table>

Required:
1- By using PERT/cost technique determine the minimum cost for achieving the project in its minimum time.
2- From your preceding results in (1) determine the minimum cost for achieving the project in 22.5 month.

**Question No. (3):** (30 marks) (1 Hour)

If you have the following LPM:

\[ F(x) = 3x_1 - 5x_2 \]

(Maximize)

Subject to:

\[
\begin{align*}
7x_1 - 2x_2 & \geq -14 \\
x_1 & \leq 4 \\
x_2 & \leq 6 \\
3x_1 + 2x_2 & \leq 18 \\
x_1, x_2 & \geq 0
\end{align*}
\]

**Required:**

1- Solve the LPM graphically. Then, determine the redundant constraints if there are exist and the types of solutions.

2- From your preceding result in (1), solve the LPM by using the suitable simplex method.

3- From your preceding result in (1) and (2), determine the dual problem and the optimal solution tableau for the dual problem.

*Best Wishes & Good luck ....*
The First Question: (35 Marks)
Select the correct answer for each of the following question:
1- Evidence obtained directly by the auditor will not be reliable if
a- the auditor lacks the qualifications to evaluate the evidence.
b- it is provided by the client’s attorney.
c- the client denies its veracity.
d- it is impossible for the auditor to obtain additional corroboratory evidence.

2- Auditors routinely examine selected items from a much larger population. Which of the following methods might an auditor use in selecting the items to examine?
a- Select the items that are largest.
b- Select items randomly.
c- Select items that are most likely to contain misstatements.
d- All of the above are appropriate methods.

3- Which of the following statements regarding the relevance of evidence is correct?
a- To be relevant, evidence must pertain to the question at hand.
b- To be relevant, evidence must be persuasive.
c- To be relevant, evidence must relate to multiple audit objectives.
d- To be relevant, evidence must be evaluated in terms of the general audit objectives.

4- A document which the auditor receives from the client, but which was prepared by someone outside the client’s organization, is a(n)
a- confirmation.
b- internal document.
c- external document.
d- inquiry.

5- “Evaluations of financial information made by a study of plausible relationships among financial and nonfinancial data involving comparisons of recorded amounts to expectations developed by the auditor” is a definition of
a- analytical procedures.
b- tests of transactions.
c- tests of balances.
d- auditing.

6- Which of the following forms of evidence would be least persuasive in forming the auditor’s opinion?
a- Responses to auditor’s questions by the president and controller regarding the investments account.
b- Correspondence with a stockbroker regarding the quantity of client’s investments held in street name by the broker.
c- Minutes of the board of directors authorizing the purchase of stock as an investment.
d- The auditor's count of marketable securities.

7- Which of the following qualities affecting the persuasiveness of evidence is not relevant to the auditor's evidence decisions related to which audit procedures to use?
   a- When procedures are performed – timeliness.
   b- Qualifications of information provider.
   c- Effectiveness of internal controls.
   d- All of the above are relevant.

8- The audit program usually states all four of the choices below, but it always includes the
   a- audit procedures.
   b- sample sizes.
   c- particular items to select.
   d- timing of the tests.

9- Which of the following statements is incorrect?
   a- Competence of evidence may also be thought of as reliability of evidence.
   b- The quantity of evidence obtained determines its sufficiency.
   c- The auditor need not consider the independence of an information source when obtaining evidence related to a client's accounts receivable.
   d- Evidence obtained directly by the auditor is more reliable than evidence obtained from other sources.

10- Which one of the following is not one of the characteristics of competent evidence?
    a- Independence of provider.
    b- Effectiveness of internal control structure.
    c- Size of the sample.
    d- Degree of objectivity.

11- A measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit is completed and an unqualified opinion has been issued is the
    a- inherent risk.
    b- acceptable audit risk.
    c- statistical risk.
    d- financial risk

12- The auditor is likely to accumulate more evidence when the audit is for a company
    a- whose stock is publicly held.
    b- which has extensive indebtedness.
    c- which is to be sold in the near future.
    d- All three of the above.

13- Which of the following is not correct regarding the communications between successor and predecessor auditors?
    a- The burden of initiating the communication rests with the predecessor auditor.
b- The burden of initiating the communication rests with the successor auditor.
c- The predecessor auditor must receive their former client’s permission prior to divulging
information to the successor auditor
d- The predecessor auditor may choose to provide a limited response to a successor auditor.

14- Which of the following is not a potential effect of an auditor’s decision that a lower
acceptable audit risk is appropriate?
   a- More evidence is required.
b- Less evidence is required.
c- Special care is required in assigning experienced staff.
d- Review of the audit files by personnel who were not assigned to the engagement.

15- One means of informing the client that the auditor is not responsible for the discovery of all
acts of fraud is the
   a- engagement letter.
b- representation letter.
c- responsibility letter.
d- client letter.

16- An extensive understanding of the client’s business and industry and knowledge about the
company’s operations are essential for doing an adequate audit. For a new client, most of this
information is obtained
   a- from the predecessor auditor
   b- from the Securities and Exchange Commission.
c- from the permanent file.
d- at the client’s premises.

17- The official record of the meetings of the board of directors and stockholders is contained in
the corporate
   a- bylaws.
b- charter.
c- minutes.
d- license.

18- An understanding of a client’s external environment includes
   a- general economic conditions.
b- the extent of competition within the industry.
c- regulatory requirements.
d- all of the above.

19- A tour of the client’s facilities is helpful in obtaining an understanding of the client’s
operations because
   a- the auditor will be able to assess the physical safeguards over assets.
b- the auditor may be better able to assess certain inherent risks.
c- the auditor obtains a broader perspective about the company as a whole.
d- all of the above.
20- Which of the following is true with respect to a company's performance measurement system?

a- The risk of financial misstatements may be reduced if a company has some flexibility in its performance measurement system.
b- Performance measurement is focused on internal measures, not external measures (i.e., competitor performance measures).
c- A performance measurement system should include measures that aid the company in assessing progress towards its objectives.
d- All of the above are correct.

21- If an auditor establishes a relatively low level for materiality, then the auditor will

a- accumulate more evidence than if a higher level had been set.
b- accumulate less evidence than if a higher level had been set.
c- accumulate approximately the same evidence as would be the case were a higher level set.
d- accumulate an undetermined amount of evidence.

22- In an audit area that has a higher inherent risk, it would be prudent to

a- increase the amount of audit evidence gathered.
b- assign more experienced staff to that area.
c- review the completed audit files more thoroughly.
d- do all of the above.

23- Which of the following is least likely to be appropriate as the basis for determining the preliminary judgment about materiality in the audit of a set of financial statements?

a- Net income before taxes.
b- Current assets.
c- Owners' equity.
d- Inventory.

24- Auditors generally allocate the preliminary judgment about materiality to

a- the balance sheet only.
b- the income statement only.
c- the income statement and balance sheet.
d- the statement of cash flows.

25- Which of the following statements regarding inherent risk is correct?

a- The inherent risk assigned in the audit risk model is unaffected by the auditor's experience with client's organization.
b- Most auditors set a low inherent risk in the first year of an audit and increase it if experience shows that it was incorrect.
c- Most auditors set a high inherent risk in the first year of an audit and reduce it in subsequent years as they gain experience, even when there is inherent risk.
d- The inherent risk assigned in the audit risk model is dependent upon the strengths in client's internal control system.
26- Which of the following is not a difficulty associated with allocating the preliminary judgment about materiality to balance sheet accounts?
   a- Auditors expect certain accounts to have more misstatements than others.
   b- The allocation can have a significant effect on audit costs.
   c- The auditor can expect to identify overstatements as well as understatements in the accounts.
   d- All of the above are difficulties associated with the allocation of materiality.

27- The opinion paragraph in auditors' reports includes two important phrases that are directly related to materiality and risk. The phrases are
   a- "in our opinion" and "in all material respects."
   b- "presents fairly" and "in all material respects."
   c- "in our opinion" and "presents fairly."
   d- "in all material respects" and "reasonable assurance."

28- The five steps in applying materiality are listed below in random order.
   1- Estimate the combined misstatement.
   2- Estimate the total misstatement in the segment.
   3- Set preliminary judgment about materiality.
   4- Allocate preliminary judgment about materiality to segments.
   5- Compare combined estimate with preliminary judgment about materiality.

The correct sequence from start to finish would be
   a- 1 2 5 4 3.
   b- 3 4 2 1 5.
   c- 4 3 1 5 2.
   d- 5 1 3 2 4.

29- Since materiality is relative, it is necessary to have bases for establishing whether misstatements are material. Normally, the most common base for deciding what material is
   a- net income before taxes.
   b- net working capital.
   c- net income after taxes.
   d- total assets.

30- The more effective the internal controls, the lower the risk factor that ............. assigned to control risk.
   a- should be.
   b- could be.
   c- is.
   d- must be.

31- Regardless of how the allocation of the preliminary judgment about materiality was done, when the audit is complete the auditor must be confident that the combined errors in all accounts are
   a- less than the preliminary judgment.
b- equal to the preliminary judgment.
c- more than the preliminary judgment.
d- less than or equal to the preliminary judgment.

32- Auditors frequently refer to the terms audit assurance, overall assurance, and level of assurance to refer to .......... 
   a- detection risk.
   b- audit report risk.
   c- acceptable audit risk.
   d- none of the above.

33- If planned detection risk is reduced, the amount of substantive evidence the auditor accumulates will
   a- increase.
   b- decrease.
   c- remain unchanged.
   d- be indeterminate.

34- In situations in which the auditor believes the chance of financial failure or loss is high, and there is a corresponding increase in client business risk for the auditor, acceptable audit risk should
   a- be reduced.
   b- be increased.
   c- remain the same.
   d- be calculated using a computerized statistical package.

35- Many account balances require estimates and/or a great deal of management judgment. One area that does not require such judgment would be
   a- allowance for uncollectible accounts.
   b- useful life of equipment for tax purposes.
   c- obsolete inventory.
   d- liability for warranty payments.

The Second Question: (23 Marks)
Indicate which of the following is true or false.

<table>
<thead>
<tr>
<th></th>
<th>Analytical procedures are usually the least expensive type of evidence.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-</td>
<td>Inquiries of the client are rarely sufficient by themselves to provide competent evidence to satisfy an audit objective.</td>
</tr>
<tr>
<td>3-</td>
<td>A canceled check written by the client, made payable to a local vendor and drawn on the client’s bank account is one type of internal document.</td>
</tr>
<tr>
<td>4-</td>
<td>Inquiries of clients and re-performance normally have a low cost to perform.</td>
</tr>
<tr>
<td>5-</td>
<td>When analytical procedures reveal no unusual fluctuations in an account balance, the auditor will probably perform fewer tests of details of balance for that account.</td>
</tr>
<tr>
<td>6-</td>
<td>Objective evidence is more reliable, and hence more persuasive, than subjective</td>
</tr>
<tr>
<td>7-</td>
<td>Analytical procedures are required during the planning and completion phases on all financial statement audits.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>8-</td>
<td>Analytical procedures can be used to provide reliable substantive evidence for all balance-related general audit objectives.</td>
</tr>
<tr>
<td>9-</td>
<td>Before accepting a new client, most CPA firms investigate the company to determine its acceptability. However, AICPA confidentiality requirements prohibit CPA firms from contacting certain parties—namely the company’s attorneys and bankers—during this investigation.</td>
</tr>
<tr>
<td>10-</td>
<td>When a successor (new) auditor contacts a company’s previous auditor, the predecessor auditor is required to respond to the request for information.</td>
</tr>
<tr>
<td>11-</td>
<td>Auditors should obtain copies of the client’s articles of incorporation, bylaws, and minutes of the meetings of the board of directors to aid in their understanding of the company’s management and governance structure.</td>
</tr>
<tr>
<td>12-</td>
<td>Corporate governance refers to management’s operating philosophy and management style.</td>
</tr>
<tr>
<td>13-</td>
<td>When a successor (new) auditor requests confidential information from a company’s previous auditor, the predecessor auditor does not need the client’s permission before providing the requested information to the successor auditor.</td>
</tr>
<tr>
<td>14-</td>
<td>If a prospective client has been audited in the past, the successor auditor will typically rely solely on the representations about the client by the predecessor auditor.</td>
</tr>
<tr>
<td>15-</td>
<td>A major consideration in assigning staff to an audit engagement is the experience levels required for the work, while a less important consideration is maintaining staff continuity on the engagement.</td>
</tr>
<tr>
<td>16-</td>
<td>Transactions with related parties must be disclosed in the financial statements regardless of their amounts to ensure full disclosure.</td>
</tr>
<tr>
<td>17-</td>
<td>Generally, auditors assess inherent risk as moderate for related party transactions because they expect clients to be aware of their close scrutiny of such transactions.</td>
</tr>
<tr>
<td>18-</td>
<td>When a successor (new) auditor requests information from a company’s previous auditor, and there are legal problems or disputes between the client and the predecessor auditor, the predecessor auditor’s response to the new auditor may be limited to stating that no information will be provided.</td>
</tr>
<tr>
<td>19-</td>
<td>One purpose of performing preliminary analytical procedures in the planning phase of an audit is to help the auditor make a preliminary assessment of control risk.</td>
</tr>
<tr>
<td>20-</td>
<td>An engagement letter can affect the CPA firm’s legal responsibilities to the client, but does not affect responsibility to external users of audited financial statements.</td>
</tr>
<tr>
<td>21-</td>
<td>There is no precise definition of materiality in the professional literature.</td>
</tr>
<tr>
<td>22-</td>
<td>Most practitioners allocate the preliminary judgment about materiality to balance sheet, rather than income statement, accounts.</td>
</tr>
<tr>
<td>23-</td>
<td>Auditors often use prior year financial statement balances to establish their preliminary judgment about materiality in planning the current year’s audit.</td>
</tr>
</tbody>
</table>
The Third Question (20 Marks):
1- There are four important purposes of analytical procedures. Identify each of these four purposes and, for each purpose, give a specific example of an analytical procedure that an auditor might perform (6 Marks).

2- Discuss the four primary purposes of analytical procedures performed during the planning phase of an audit (4 Marks).

3- Discuss the three main factors that affect an auditor’s preliminary judgment about materiality (5 Marks).
4- There are several factors that affect acceptable audit risk. Discuss three of these factors (5 Marks).

---

**The Fourth Question (10 Marks):**

Match five of the terms (a-i) with the definitions provided below (1-5):

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a-</td>
<td>Audit documentation</td>
<td>b-</td>
</tr>
<tr>
<td>c-</td>
<td>Audit objectives</td>
<td>d-</td>
</tr>
<tr>
<td>e-</td>
<td>Budgets</td>
<td>f-</td>
</tr>
<tr>
<td>g-</td>
<td>Reliability of evidence</td>
<td>h-</td>
</tr>
<tr>
<td>i-</td>
<td>Sufficiency of evidence</td>
<td></td>
</tr>
</tbody>
</table>

1. Use of comparisons and relationships to assess the reasonableness of account balances.
2. Detailed instructions for the collection of a type of audit evidence.
3. The degree to which evidence can be considered believable or trustworthy.
Contains all the information that the auditor considers necessary to conduct an adequate audit and to provide support for the audit report.

The Fifth Question (12 Marks):
Match six of the terms (a-i) with the definitions provided below (1-6):

<table>
<thead>
<tr>
<th>a</th>
<th>Business risk</th>
<th>b</th>
<th>Preliminary judgment about materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>c</td>
<td>Inherent risk</td>
<td>d</td>
<td>Planned detection risk</td>
</tr>
<tr>
<td>e</td>
<td>Audit assurance</td>
<td>f</td>
<td>Acceptable audit risk</td>
</tr>
<tr>
<td>g</td>
<td>Tolerable misstatement</td>
<td>h</td>
<td>Control risk</td>
</tr>
<tr>
<td>i</td>
<td>Materiality</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. A measure of the risk that audit evidence for a segment will fail to detect misstatements exceeding a tolerable amount, should such misstatements exist.
2. The risk that the client will fail to achieve its objectives.
3. A measure of the auditor’s assessment of the likelihood that misstatements exceeding a tolerable amount in a segment will not be prevented or detected by the client’s internal controls.
4. A measure of how much risk the auditor is willing to take that the financial statements may be materially misstated after the audit is completed and an unqualified audit opinion has been issued.
5. The materiality allocated to any given account balance.
6. The maximum amount by which the auditor believes that the statements could be misstated and still not affect the decisions of reasonable users.

Good Luck
First Question

Colchester’s Toy Store has a magic department near the main door. Suppose that management is considering dropping the magic department, which has consistently shown an operating loss. The predicted income statements of three product lines are shown as follows:

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Electronic</th>
<th>Magic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>700,000</td>
<td>800,000</td>
<td>600,000</td>
<td>2,100,000</td>
</tr>
<tr>
<td><strong>- Variable expenses</strong></td>
<td>420,000</td>
<td>560,000</td>
<td>480,000</td>
<td>1,460,000</td>
</tr>
<tr>
<td><strong>Contribution margin</strong></td>
<td>280,000</td>
<td>240,000</td>
<td>120,000</td>
<td>640,000</td>
</tr>
<tr>
<td><strong>- Fixed expenses</strong></td>
<td>160,000</td>
<td>140,000</td>
<td>150,000</td>
<td>430,000</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>120,000</td>
<td>100,000</td>
<td>(30,000)</td>
<td>210,000</td>
</tr>
</tbody>
</table>

The fixed expenses (150,000) of magic department include the wages and salaries of employees of 40,000. These employees will be released if the magic department is closed. Other fixed expenses will continue even in case of closing magic department. If the magic department is dropped, the company will use the vacated space for either more general products or more electronic products. The expansion of general products would not entail hiring any additional person help, but more electronic products would require an additional person at an annual cost of 60,000. The manager thinks that sales of general product would increase by 300,000 and sales of electronic products by 400,000.

Instructions
1- Should the magic department be closed? Explain (show computations).
2- There is any qualitative factors that would influence your decision.

Second Question

Manchester firm is preparing to bid for a consulting job. You have estimated the costs for the consulting job to be:

- Direct materials: 150,000
- Direct labour (5000 hours at 20 per hour): 100,000
- Variable overhead (5000 hours at 10 per hour): 50,000
- Total variable costs: 300,000
- Fixed overhead costs (5000 hours at 15 per hour): 75,000
- Total costs: 375,000

Fixed overhead includes 50,000 that will be incurred even if the job is not undertaken. The company normally bids jobs at the sum of (1) 150% of direct materials cost and (2) 35 per labour hour.

Instructions
1- Prepare a bid using the normal formula.
2- Prepare a minimum bid equal to the additional costs expected to be incurred to complete the job
3- Prepare a bid that will cover full costs plus a markup for profit equal to 20% of full costs.

Third Question
Essex Company makes an electronic component for its product. Production costs for 100,000 units of the component are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total costs for 100,000 units</th>
<th>Cost per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>$500,000</td>
<td>5</td>
</tr>
<tr>
<td>Direct labor</td>
<td>400,000</td>
<td>4</td>
</tr>
<tr>
<td>Variable factory overhead</td>
<td>500,000</td>
<td>5</td>
</tr>
<tr>
<td>Fixed factory overhead</td>
<td>300,000</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total manufacturing costs</strong></td>
<td><strong>1700,000</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

Another manufacturer has offered to supply the components at a price of $16 each. If the company discontinued its production of the component, fixed overhead that would not be avoided $200,000.

Instructions
1- Assume that that the capacity now used to make the component will become idle if the components are purchased. Should buy or make components?
2- Assume that the capacity now used to make the component will be used to increase the sales of main product by $500,000 (cost of goods sold 60% of sales).
3- List three qualitative factors that would influence your decision.

Fourth Question
The following data regarding Liverpool Company is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Old Equipment</th>
<th>New Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Useful life, in years</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Current age, in years</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Useful life remaining, in years</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Original cost</td>
<td>$40,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Accumulated depreciation (old)</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>Book value (old)</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>Disposal value (cash) now (old)</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>Disposal value in 5 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual cash operating costs</td>
<td>15,000</td>
<td>9,000</td>
</tr>
</tbody>
</table>

The manager is trying to decide whether to replace the old equipment. Because of rapid changes in technology, he expects the new equipment to have only a five-year useful life.
Instructions
1- Tabulate a cost comparison that includes both relevant and irrelevant items for the next four years together.
2- Tabulate a cost comparison of all relevant items for the next four years together.

Fifth Question
Kent wholesaler is preparing its sales and purchases budgets for the second quarter of 2009. The data regarding these budgets as follows:

1- Expected sales are: $700,000 in April; $800,000 in May; $900,000 in June and $800,000 in July. Sales are 20% cash and 80% on credit. 50% of credit sales are collected in the month of sale, 30% in the next month and 20% in the following month. Sales in February were $500,000 and in March were $600,000.

2- Gross profit percentage is 30% of sales.

3- Ending inventory is 20% of the cost of goods sold for the following month.

4- Purchases in February were $400,000 and in March were $450,000. Purchases are paid as follows; 20% in the month of purchase, 50% in the next month and 30% in the following month.

Instructions
1- Prepare a sale budget schedule and a cash collections (from sales) budget schedule for April, May and June.
2- Prepare a purchase budget schedule and a cash payments (for purchases) budget schedule for April, May and June.
3- Prepare the cash budget for April, May and June, assuming the following data:
   a. Cash balance 31/3/2009 $20,000
   b. Payments for operating expenses:
      April $50000
      May 60000
      June 65000
   c. Minimum cash balance is $20000 at the end of each month. To keep this balance, the company can borrow or repay loans in multiples of $1000 at end of the month in question. Interest rate is 12% per year.
   d. Equipments purchased and paid in April, amounted to $278000

Best Wishes
First Question

On 1/1/2007, Misr Bank purchased a treasury bonds for L.E. 936000. The bonds mature on 31/12/2008, and the face amount of the bonds is L.E. 900000. The interest rate is 12% and the interest coupon is due June 30 and December 31.

Instructions
1- Record the purchase of the treasury bonds on 1/1/2007. Payment was made by cashier’s check.
2- Record the interest earned on the treasury bonds at the end of January, 2007.
3- Record the collection of interest on June 30, 2007. Payment was made directly to the bank’s account at the Egyptian Central Bank.
4- Record the sale of the bonds on 31/8/2007. The sale price was L.E. 920000 plus the interest from 30/6/2007 to 31/8/2007. The amount was collected in cash.

Second Question

On 1/5/2009, Gold Star Company borrowed L.E. 350000 from Cairo Bank for a period of 3 years to buy an apartment. Annual interest rate is 12%. Equal monthly payments are made, including the principal and interest. The monthly payment is L.E. 11625.

Instructions
1- Prepare an amortization schedule for the first three loan repayments.
2- Prepare the journal entries for the payment of the loan (mortgage) and the first two months' loan repayment.

Third Question

On 1/4/2008 the Red Star Company borrowed L.E. 480000 from Misr Bank for 12 months on an installment loan basis. The interest on the loan was 3900. The borrower will make loan repayments in equal monthly amounts at the beginning of each month.

Instructions
1- Record the payment of the loan to Red Star Company.
2- Prepare the journal entries to record the first three months’ loan repayment.

Fourth Question

Misr Bank made the following transactions during May and June, 2005:

May 7 - The bank purchased L.E. 3000000 of reserve funds through the Central Bank for 3 days at an interest rate of 12%.
May 15 - The bank sold L.E. 2500000 of reserve funds through the Central Bank for 2 days at an interest rate of 12%.
May 23 - The bank purchased L.E 900000 of securities under a 19 day resale agreement at an interest rate of 12%.

May 31 - The bank recorded any accrued interest for the month of May.

June 11 - The bank resold the L.E 900000 of securities purchased on 23 of May.

**Instructions**

Prepare the required journal entries to record the above transactions in the books of Misr Bank.

**Fifth Question**

The following transactions are conducted by Elshark Insurance Company (Life insurance branch) during the month of July 2009:

1- The direct premiums accrued and collected during July totaled L.E. 1500000. The different fees items regarding such premiums were as follows: 12000 stamp fees, 18000 supervision fees, and 20000 issuance fees.

2- Reinsurance premiums accepted, accrued and collected amounted to L.E. 400000, allocated as follows:
   - L.E. 140000  Egyptian Reinsurance Company
   - L.E. 150000  Treaty Reinsurance Companies
   - L.E. 110000  Faculative Reinsurance Companies

3- Reinsurance premiums ceded, accrued, amounted to 20% of direct premiums, and allocated as follows:
   - 10%  Egyptian Reinsurance Company
   - 6%   Treaty Reinsurance Companies
   - 4%   Faculative Reinsurance Companies

4- The direct commission due to the agents totaled L.E. 100000. Other production expenses totaled L.E. 10000. The accrued reinsurance commission due to the ceding companies amounted to L.E. 30000.

5- Reinsurance commission accrued from the accepted companies is 20% of the direct commission.

6- Direct claims accrued and paid during the month were as follows:
   - By Death: 130000
   - By Maturity: 95000
   - By Surrender: 85000
   - Pensions & Annuities: 75000
   - Prises: 25000

   In addition, reinsurance claims on premium accepted were L.E. 120000

Further, Premiums exempted from being paid amounted to L.E. 8000. Bonuses paid in cash totaled L.E. 5000 and bonuses used in reduction of premiums totaled L.E. 7000.
7- Reinsurance claims accrued on premium ceded were L.E. 130000.

8- Different items of income from investments accrued and collected were as follows:
   Securities revenues 25000
   Loans interest revenues 18000
   Real Estate rent revenue 15000
   Interest revenues on deposits 9000
   Interest revenue on governmental bonds 7000

   In addition, the real estate expenses accrued and paid amounted to L.E. 4000.

9- Total general and administrative expenses payable amounted to L.E. 50000; allocated as follows:
   50%   Life Insurance
   40%   General Insurance
   Remaining Unappropriated

10- Computer center expenses accrued and paid totaled L.E. 30000; allocated as follows:
   40%   Life Insurance
   30%   General Insurance
   Remaining Unappropriated

11- Provisions are estimated on a monthly basis as follows:
   - Depreciation 3000
   - Retirement Reward 4000
   - Premium Receivable 6000
   - Other provisions 2000

Instructions
Prepare the journal entries to record the above transactions.

Best Wishes
Answer the following Questions:

**Question No. (1): (Transportation Problem)** (35 degree) (1 hour)

A company owns four different factories $A_1$, $A_2$, $A_3$ and $A_4$ producing a homogeneous commodity which is sold in three different destinations $B_1$, $B_2$ and $B_3$. The following table represents the number of units produced in each factory, the number of demand units for each destination and the profit for each commodity unit transported from the set of factories to the set of destinations:

<table>
<thead>
<tr>
<th>Factory</th>
<th>Production units</th>
<th>Profit unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$B_1$</td>
</tr>
<tr>
<td>$A_1$</td>
<td>4000</td>
<td>3.4</td>
</tr>
<tr>
<td>$A_2$</td>
<td>3500</td>
<td>3.9</td>
</tr>
<tr>
<td>$A_3$</td>
<td>2000</td>
<td>3.4</td>
</tr>
<tr>
<td>$A_4$</td>
<td>2000</td>
<td>3.7</td>
</tr>
<tr>
<td>Demand Units</td>
<td>4500</td>
<td>4000</td>
</tr>
</tbody>
</table>

**Required:**
1) Formulate the transportation problem as a linear programming model.
2) Determine the total profit resulted from the initial solution to the three different techniques for solving the transportation problem, which technique has the maximum total profit.
3) From your preceding results in (2) determine the optimum solution for this transportation problem.

**Question No. (2)** (30 degree) (1 hour)

**First: (The Game Theory)**

If you have the following pay-off game matrix:

$$
\begin{pmatrix}
-2 & -4 \\
2 & 3 \\
3 & 2 \\
-1 & 6
\end{pmatrix}
$$

**Required:**
1) Interpret the meaning of elements for the game matrix, and determine the saddle point if it exist?
2) Formulate the game as a LPM for each player.
3- From you preceding result in (1) and by using the dominance principle to reduce the game matrix in $3 \times 2$, determine the optimum strategies for each player and the value of games by using the set of sub-matrizes.

**Second : (Network Analysis)**

The following table represents the normal and crash (two alternatives) data for three activities for achieving a specific project:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Normal Data</th>
<th>Crash Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time (month)</td>
<td>Cost (thousands L.E)</td>
</tr>
<tr>
<td>A</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>C</td>
<td>14</td>
<td>64</td>
</tr>
</tbody>
</table>

**Required:**

1) By using PERT / Cost technique determine the minimum cost for achieving the project in its minimum time.

2) Determine the minimum time for achieving the project with total cost 200,000 L.E.

3) Determine the minimum cost for achieving the project in 29 months.

**Question No. (3) : (LPM)**

(35 Degree) (1 hour)

If you have the following LPM:

$$F(x) = 4x_1 + 6x_2 + 18x_3 \quad (\text{MIN})$$

Subject to:

$$X_1 + 3X_3 \geq 3$$
$$-X_2 - 2X_3 \leq -5$$

$$X_1, X_2, X_3 \geq 0$$

**Required:**

1) Determine the Dual problem.

2) Solve the Dual Problem graphically and determine the different types of solutions.

3) By Using the suitable simplex method, solve the Dual problem.

4) From you Preceding result in (3) determine the table for the optimum solution to the primal problem.

5) From your preceding results in (3 and 4) determine the shadow prices and interpret the meaning of shadow prices economically.

With my best Wishes....
Answer the following Questions:

**Question One (40 marks):**

The following is the Profit & Loss Account of an industrial sole-proprietorship as presented to the Tax Department enclosed to the Tax Declaration of the year ended Dec. 31, 2009:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; rewards</td>
<td>17,000</td>
<td>Gross Profit</td>
<td>127,900</td>
</tr>
<tr>
<td>Donations</td>
<td>900</td>
<td>Return of a building</td>
<td>3,900</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>2,200</td>
<td>Gains of sold securities</td>
<td>3,000</td>
</tr>
<tr>
<td>Drawings</td>
<td>800</td>
<td>Stock dividends Revenue</td>
<td>1,500</td>
</tr>
<tr>
<td>Building Taxes</td>
<td>400</td>
<td>Sale of machine</td>
<td>15,000</td>
</tr>
<tr>
<td>Depreciation provision</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interests</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>90,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>151,300</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tax examination of the Firm’s books revealed the following:

1. Salaries and rewards included: L.E.12,000 annual salaries for the employees and the rest is rewards.
2. Donations were for a private school under the government supervision.
3. The firm did not pay insurance premium of December.
4. Drawings represent cost of goods withdrawn by the employer for his private use.
5. Buildings taxes were for the building owned by the firm, half of which is occupied by it, and the other half is rented for L.E.300 per month.
6. Depreciation provision represents a depreciation with a rate of 10% of the machine cost on first January 2009 (noting that the book value of machine on such date was L.E.40,000 and the firm sold the machine on the first of October of the same year.
7. Interests were for loans used in the business with a rate of 30% of their value (noting that credit and discount rate declared by the Central Bank on the first of January 2009 was 12%).

**Required:**

Prepare the Firm’s tax declaration for the 2009, and determine the taxable net profit, given that the Firm’s operation results for the previous years were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
<th>Profit</th>
<th>Profit</th>
<th>Profit</th>
<th>Profit</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>L.E.200,000</td>
<td>L.E.40,000</td>
<td>L.E.50,000</td>
<td>L.E.30,000</td>
<td>L.E.50,000</td>
<td>L.E.10,000</td>
</tr>
<tr>
<td>Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Question Two (30 marks):**

A private Egyptian Corporation has a common stock of L.E.1,000,000 and retained earnings of L.E.400,000. The company is recorded in the Egyptian Stock Market. The Profit & Loss Account of the Firm for the year ended on December 31, 2009 showed a net profit of L.E.850,000. A decision was made to allocate the net profit as follows:
10% a legal reserve, 5% a first instalment to shareholders and workers, 10% of the balance as a bonus to the board of directors, 10% a second instalment to shareholders and workers, and the balance to be forwarded to the following year.

The following information is also available:
1- The first and second instalments for shareholders & workers were distributed and the bonus of board of directors was paid.
2- Debit interest paid on loans and advances obtained amounts L.E.500,000. The loans and advances amounts are L.E.5,000,000.
3- Machinery depreciation expense amounts to L.E.20,000. It was revealed that the rate used was 10% on the costs which amounts to L.E.200,000. The examination showed that the historical cost of these machinery included beginning balance L.E.100,000. Noting that the taxable depreciation expense amounts to L.E.50,000.
4- other provisions included as costs L.E.90,000. It included L.E.60,000 a provision of declining the inventory price. The residual amount considered as allowance for doubtful debts.
5- Sundry expenses comprises the following amounts: L.E.80,000 donations to Cairo-University Hospital. L.E.40,000 donations to El-Helal Al-Ahmer Association. L.E.120,000 salaries paid to the delegated member of board of directors for his administrative work. L.E.160,000 attendance allowance paid to board of directors’ members and to shareholders general assembly meeting.
6- L.E200,000 included as revenues derived from short-term investments- out of them L.E.50,000 gains from sold shares and bonds which are on the list of the market of securities. The residual amount derived from investments of attached firms.

**Required:** Determine the taxable profit for this corporation.

---

**Question Three (30 marks):**

An industrial producer keeps regular books, and is registered with the Sales Tax Administration. The following details about the producer were made available for the month of December 2009:

1- Total sales during December amounted to L.E.805,000 as follows:
   a. L.E.200,000 of commodity (A) taxable at the rate of 10%.
   b. L.E.505,000 of commodity (B) taxable at the rate of 5%.
   c. L.E.100,000 of commodity (C) tax-free.

2- Trade discount on sales of commodity (A) amounted to 20%. Transport expenses of commodity (B) amounted to L.E.5,000 included in the value of the commodity.

3- Sales returns during the month amounted to L.E.100,000 as follows:
   a. L.E.30,000 of sales of commodity (A).
   b. L.E.50,000 of sales of commodity (B).
   c. L.E.20,000 of sales of commodity (C).

4- The purchases (inputs) during the month amounted to L.E.300,000 as follows:
   - L.E.100,000 purchases subjected to tax were used in producing commodity (A) of which L.E.30,000 from an unregistered seller with the Administration.
   - L.E.150,000 purchases subjected to tax were used in the production of commodity (B).
   - L.E.50,000 purchases exempted from tax were used in producing commodity (C).

5- The tax rate on inputs was 10%.

**Required:** Prepare a summary of the General Sales Tax.

---

**Best Wishes******** **ALI ABDELKARIM RAWY**

**A.A. Rawy**
The First Question: (40 Marks)
Select the correct answer for each of the following question:
1- Which of the following is not typically included initial audit planning?
   a- Client acceptance/continuation decisions.
   b- Determination of the purpose of the audit.
   c- Schedule engagement staff and audit specialists.
   d- Perform preliminary analytical procedures.

2- Which of the following is not a potential effect of an auditor’s decision that a lower acceptable audit risk is appropriate?
   a- More evidence is required.
   b- Less evidence is required.
   c- Special care is required in assigning experienced staff.
   d- Review of the working papers by personnel who were not assigned to the engagement.

3- Investigation of new clients and reevaluation of existing ones is an essential part of deciding
   a- inherent risk.
   b- acceptable audit risk.
   c- statistical risk.
   d- financial risk.

4- An extensive understanding of the client’s business and industry and knowledge about the company’s operations are essential for doing an adequate audit. For a new client, most of this information is obtained
   a- from the predecessor auditor.
   b- from the Securities and Exchange Commission.
   c- from the permanent file.
   d- at the client’s premises.

5- Why do auditors need to obtain an understanding of a client’s industry and external environment?
   a- Certain industries have different business risks than others.
   b- Inherent risks commonly differ across companies within an industry.
   c- Accounting issues may be highly complex across companies within an industry.
   d- All of the above.

6- Which of the following is the most likely first step an auditor would perform at the beginning of an initial audit engagement?
   a- Prepare a rough draft of the financial statements and of the auditor’s report.
   b- Study and evaluate the system of internal administrative control.
   c- Tour the client’s facilities and review the general records.
   d- Consult with and review the work of the predecessor auditor prior to discussing the engagement with the client management.
7- Which of the following is true with respect to a company's performance measurement system?
   a- The risk of financial misstatements may be reduced if a company has some flexibility in its performance measurement system.
   b- Performance measurement is focused on internal measures, not external measures (i.e., competitor performance measures).
   c- A performance measurement system should include measures that aid the company in assessing progress towards its objectives.
   d- All of the above is correct.

8- Which of the following steps would be least likely to occur in assessing a client's business risk?
   a- Evaluating management controls.
   b- Obtaining an understanding of the client's industry.
   c- Assess risks of material misstatements.
   d- All of the above are equally likely to occur.

9- Which of the following is correct with respect to the use of analytical procedures?
   a- Analytical procedures may be used in evaluating balances in the testing phase as long as the auditor also uses them in assessing the going concern assumption in the completion phase of the audit.
   b- Analytical procedures must be used in the planning, testing, and completion phases of the audit.
   c- When analytical procedures are used in the testing phase of the audit, their primary purpose is to indicate possible misstatements.
   d- None of the above is correct.

10- The major concern when using non-financial data in analytical procedures is
   a- the accuracy of the non-financial data.
   b- the source of the non-financial data.
   c- the type of non-financial data.
   d- the presence of multiple sources of non-financial data.

11- An auditor who accepts an audit engagement and does not possess the industry expertise of the business entity should
   a- engage financial experts familiar with the nature of the business entity.
   b- obtain a knowledge of matters that relate to the nature of the entity's business.
   c- refer a substantial portion of the audit to another CPA who will act as the principal auditor.
   d- first inform management that an unqualified opinion cannot be issued.

12- The preliminary judgment about materiality is the .......... amount by which the auditor believes the statements could be misstated and still not affect the decisions of reasonable users.
   a- minimum.
   b- maximum.
   c- mean average.
   d- median average.
13- Why do auditors establish a preliminary judgment about materiality?
   a- To help the auditor plan the appropriate evidence to accumulate.
   b- So that the client can know what records to make available to the auditor.
   c- To determine what level of staffing (i.e., work experience) is required for the audit.
   d- None of the above.

14- If an auditor establishes a relatively low level for materiality, then the auditor will
   a- accumulate more evidence than if a higher level had been set.
   b- accumulate less evidence than if a higher level had been set.
   c- accumulate approximately the same evidence as would be the case were a higher level set.
   d- accumulate an undetermined amount of evidence.

15- In an audit area that has a higher inherent risk, it would be prudent to
   a- increase the amount of audit evidence gathered.
   b- assign more experienced staff to that area.
   c- review the completed audit files more thoroughly.
   d- do all of the above.

16- Auditors generally allocate the preliminary judgment about materiality to
   a- the balance sheet only.
   b- the income statement only.
   c- the income statement and balance sheet.
   d- the statement of cash flows.

17- Which of the following statements regarding inherent risk is correct?
   a- The inherent risk assigned in the audit risk model is unaffected by the auditor’s experience
      with client’s organization.
   b- Most auditors set a low inherent risk in the first year of an audit and increase it if experience
      shows that it was incorrect.
   c- Most auditors set a high inherent risk in the first year of an audit and reduce it in subsequent
      years as they gain experience, even when there is inherent risk.
   d- The inherent risk assigned in the audit risk model is dependent upon the strengths in client’s
      internal control system.

18- The phrase “in our opinion” in the auditor’s report is intended to inform users that auditors
   a- guarantee fair presentation of the financial statements.
   b- act as insurers of the accuracy of the statements.
   c- certify the material presented in the statements by management.
   d- base their conclusions about the statements on professional judgment.

19- The five steps in applying materiality are listed below in random order.
   1- Estimate the combined misstatement.
   2- Estimate the total misstatement in the segment.
   3- Set preliminary judgment about materiality.
   4- Allocate preliminary judgment about materiality to segments.
5- Compare combined estimate with preliminary judgment about materiality.
The correct sequence from start to finish would be
a- 1 2 5 4 3.
b- 3 4 2 1 5.
c- 4 3 1 5 2.
d- 5 1 3 2 4.

20- Which of the following statements is not correct?
a- Materiality is a relative rather than an absolute concept.
b- Normally, the most important base used as the criterion for deciding materiality is total assets.
c- Qualitative factors as well as quantitative factors affect materiality.
d- Given equal dollar amounts, irregularities are usually considered more important than errors.

21- Allocating the preliminary judgment about materiality to segments of the financial statements is necessary because
a- evidence is accumulated for the financial statements as a whole so the materiality doesn’t apply to them.
b- evidence is accumulated by segments rather than for the financial statements as a whole.
c- it is required by the AICPA’s Code of Professional Conduct.
d- it is required by the SEC.

22- Auditors frequently refer to the terms audit assurance, overall assurance, and level of assurance to refer to ...........
a- detection risk.
b- audit report risk.
c- acceptable audit risk.
d- none of the above.

23- When allocating materiality, most practitioners choose to allocate to
a- the income statement accounts because they are more important.
b- the balance sheet accounts because there are fewer.
c- both balance sheet and income statement accounts because there could be errors on either one.
d- all of the financial statements because there could be errors on other statements besides the income statement and balance sheet.

24- Which of the following steps should the auditor generally take when the auditor identifies risks of material misstatements due to fraud?
a- Withdraw from the engagement.
b- Design and perform audit procedures to address identified fraud risks.
c- Change the overall conduct of the audit to respond to identified fraud risks.
d- b and c, but not a.

25- The audit risk model is
a- a planning, testing, and evaluation model.
b- useful in evaluating results but of limited use in planning.
c- useful in planning, but of limited value in evaluating results.
d- useful when performing the tests of balances, but of little value in either the planning or evaluation stages.

26- For an internal audit function to be effective, it is essential that the internal audit staff
a- be independent of the operating departments.
b- be independent of the accounting department.
c- report directly to a high level of authority within the organization such as the audit committee.
d- achieve all of the above.

27- Internal controls can never be considered as absolutely effective because
a- their effectiveness is limited by the competency and dependability of the company’s personnel.
b- controls always have inherent weaknesses that can be exploited.
c- controls are designed to prevent and detect only material misstatements.
d- none of the above.

28- An auditor’s attempt to gain an understanding of the accounting system is typically accomplished and documented by
a- a narrative description of the system.
b- a flowchart.
c- a questionnaire.
d- using any of the above.

29- Control risk is a measure of the auditor’s expectation that the internal controls
a- will prevent material misstatements from occurring.
b- will detect material misstatements.
c- will either prevent material misstatements or detect them.
d- will neither prevent material misstatements nor detect them.

30- The auditor can conclude that control risk is low
a- after obtaining an understanding of the control environment and the accounting system at a fairly detailed level.
b- after identifying specific controls that will reduce control risk and making an assessment of control risk.
c- after testing the controls for effectiveness.
d- only after all three steps above are completed.

31- With which one of management’s concerns with respect to implementing internal controls is the auditor primarily concerned?
a- Efficiency of operations.
b- Reliability of financial reporting.
c- Effectiveness of operations.
d- Compliance with applicable laws and regulations.

32- Which of the following statements best describes the CPA’s primary objective in reviewing internal control?
a- To provide reasonable protection against client fraud and defalcations by client employees.
b- To provide a basis for reliance on the system and determining the scope of other auditing procedures.
c- To provide a basis for constructive suggestions to the client for improving the accounting system.
d- To provide a method for safeguarding assets, checking the accuracy and reliability of accounting data, promoting operational efficiency, and encouraging adherence to prescribed managerial policies.

33- The.............consists of the actions, policies, and procedures that reflect the overall attitudes of top management.
a- control activities.
b- management philosophy.
c- control environment.
d- monitoring function.

34- Internal controls can never be regarded as completely effective. Even if company personnel could design an ideal system, its effectiveness depends on the
a- adequacy of the computer system.
b- proper implementation by management.
c- ability of the internal audit staff to maintain it.
d- competency and dependability of the people using it.

35- The essence of an effectively controlled organization lies in the
a- effectiveness of its independent auditor.
b- effectiveness of its internal auditor.
c- attitude of its employees.
d- attitude of its management.

36- A secondary objective of the auditor's study and evaluation of internal control is that the study and evaluation provide
a- a basis for reliance on the system of internal accounting control.
b- a basis for constructive suggestions concerning improvements in internal control.
c- a basis for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
d- an assurance that the records and documents have been maintained in accordance with existing company policies and procedures.

37- Which of the following is not a component of an entity's internal control?
a- Control risk.
b- Control procedures.
c- The accounting system.
d- The control environment.

38- Which of the following is not one of the subcomponents of the control environment?
a- Human resource policies and procedures.
b- Organizational structure.

c- Adequate separation of duties.

d- Commitment to competence.

39- Evidential matter concerning proper segregation of duties ordinarily is best obtained by
a- direct personal observation of the employee who applies control procedures.
b- making inquiries of co-workers about the employee who applies control procedures.
c- preparation of a flowchart of duties performed and available personnel.
d- inspection of third-party documents containing the initials of who applied control procedures.

40- Which of the following is not typically one of management's concerns in designing effective internal controls?
 a- Reliability of financial reporting.
b- Efficiency and effectiveness of operations.
c- Compliance with applicable laws and regulations.
d- Obtaining the best internal control possible.

---

**The Second Question: (30 Marks)**

**Indicate which of the following is true or false.**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1-</td>
<td>When an auditor decides there is higher inherent risk for an account, one potential effect is that more audit evidence will be required for that account.</td>
</tr>
<tr>
<td>2-</td>
<td>For prospective clients that have previously been audited by another CPA firm, the new auditor is required to communicate with the previous auditor.</td>
</tr>
<tr>
<td>3-</td>
<td>Corporate governance refers to management's operating philosophy and approach to management.</td>
</tr>
<tr>
<td>4-</td>
<td>Acceptable audit risk is a measure of the auditor's willingness to accept that the financial statements do not contain material misstatements after the audit is completed and the audit report has been issued.</td>
</tr>
<tr>
<td>5-</td>
<td>Two major factors that affect acceptable audit risk are the likely users of the financial statements and the likelihood of issuing an unqualified audit opinion.</td>
</tr>
<tr>
<td>6-</td>
<td>A major consideration in assigning staff to an audit engagement is the experience levels required for the work, while a less important consideration is maintaining staff continuity on the engagement.</td>
</tr>
<tr>
<td>7-</td>
<td>Inherent risks typically vary across companies within an industry.</td>
</tr>
<tr>
<td>8-</td>
<td>All known related parties must be identified and included in the auditor's permanent files related to the client.</td>
</tr>
<tr>
<td>9-</td>
<td>Ordinarily, the auditor should review and abstract copies of contracts during the later stages of an audit.</td>
</tr>
<tr>
<td>10-</td>
<td>One purpose of performing preliminary analytical procedures in the planning phase of an audit is to help the auditor make a preliminary assessment of control risk.</td>
</tr>
<tr>
<td>11-</td>
<td>The auditor's preliminary judgment about materiality is the maximum amount by which the auditor believes the financial statements could be misstated and still not affect the decisions of reasonable users.</td>
</tr>
<tr>
<td>12-</td>
<td>There is no precise definition of materiality in the professional literature.</td>
</tr>
<tr>
<td></td>
<td>Most practitioners allocate the preliminary judgment about materiality to balance sheet, rather than income statement, accounts.</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>14-</td>
<td>The primary purpose of allocating the preliminary judgment about materiality to financial statement accounts is to help the auditor decide the appropriate evidence to accumulate for each account.</td>
</tr>
<tr>
<td>15-</td>
<td>Auditors often use prior year financial statement balances to establish their preliminary judgment about materiality in planning the current year’s audit.</td>
</tr>
<tr>
<td>16-</td>
<td>If acceptable audit risk is low, and inherent risk and control risk are both high, then planned detection risk should be high.</td>
</tr>
<tr>
<td>17-</td>
<td>The most important element of the audit risk model is control risk.</td>
</tr>
<tr>
<td>18-</td>
<td>Auditors have difficulty applying the concept of materiality in practice because they often do not know who the users of the financial statements are or what decisions will be made.</td>
</tr>
<tr>
<td>19-</td>
<td>If the preliminary judgment of materiality increases, the amount of audit evidence required will also increase.</td>
</tr>
<tr>
<td>20-</td>
<td>Control risk and the amount of substantive evidence required are directly related; i.e., as control risk increases, the amount of substantive evidence the auditor plans to accumulate should increase.</td>
</tr>
<tr>
<td>21-</td>
<td>If, when obtaining an understanding of control activities of a relatively small client, the auditor identified no control activities, the auditor would probably set a low assessment of control risk.</td>
</tr>
<tr>
<td>22-</td>
<td>When internal controls are not effective, then substantive audit tests are less reliable; thus, the extent of substantive tests should be reduced.</td>
</tr>
<tr>
<td>23-</td>
<td>When a company designs and implements an internal control system, cost of the system is not a valid consideration.</td>
</tr>
<tr>
<td>24-</td>
<td>One benefit of effective internal control is the reduced cost of an external audit.</td>
</tr>
<tr>
<td>25-</td>
<td>Adequate documents and records is a subcomponent of the control environment.</td>
</tr>
<tr>
<td>26-</td>
<td>For proper internal control, there should be adequate separation of duties. However, the extent of separation of duties considered “adequate” depends heavily on the size of the organization.</td>
</tr>
<tr>
<td>27-</td>
<td>The most important aspect of internal control is the control environment.</td>
</tr>
<tr>
<td>28-</td>
<td>For most uses, flowcharts are superior to narratives as a method of communicating the characteristics of a system of internal control.</td>
</tr>
<tr>
<td>29-</td>
<td>The two primary determinants of an entity’s audit ability are the integrity of management and the competency of personnel.</td>
</tr>
<tr>
<td>30-</td>
<td>When control risk is assessed at the maximum level for a specific transaction-related audit objective, the auditor will not perform tests of controls for that objective.</td>
</tr>
</tbody>
</table>

**The Third Question (23 Marks):**

1- There are four essential activities involved in the initial planning of an audit. These are:

- [Blank]
- [Blank]
- [Blank]
- [Blank]
2- Discuss the four primary purposes of analytical procedures performed during the planning phase of an audit.

3- Discuss the three main factors that affect an auditor's preliminary judgment about materiality.
4- Discuss each of the five steps in applying materiality in an audit, and identify the audit phase(s) in which each step is performed.

5- There are four steps in the auditor’s process of understanding internal control and assessing control risk. Step one is obtain understanding of internal control: design and operation. What are the remaining three steps?

The Fourth Question: (7 Marks)

Match seven of the terms (a-i) with the definitions provided below (1-7):

<table>
<thead>
<tr>
<th>a-</th>
<th>Control environment</th>
<th>b-</th>
<th>Control activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>c-</td>
<td>Independent checks on performance</td>
<td>d-</td>
<td>Internal control</td>
</tr>
<tr>
<td>e-</td>
<td>Monitoring</td>
<td>f-</td>
<td>Separation of duties</td>
</tr>
<tr>
<td>g-</td>
<td>General authorization</td>
<td>h-</td>
<td>Specific authorization</td>
</tr>
<tr>
<td>i-</td>
<td>Risk assessment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Management's ongoing and periodic assessment of the quality of internal control performance to determine that controls are operating as intended and modified when needed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Company-wide policies for the approval of all transactions within stated limits.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about control and its importance to the entity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Segregation of the following activities in an organization: custody of assets, accounting, authorization, and operational responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Management’s identification and analysis of risks relevant to the preparation of financial statements in accordance with generally accepted accounting principles.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Policies and procedures that help ensure necessary actions are taken to address risks in the achievement of the entity’s objectives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>A process designed to provide reasonable assurance regarding the achievement of management's objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Good Luck**
Answer the following question:

**Question (1)(10 points):** Listed below are ten technical accounting and finance terms:

<table>
<thead>
<tr>
<th>Term</th>
<th>Term</th>
<th>Term</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational audit</td>
<td>Program audit</td>
<td>Single Audit Act</td>
<td>Special assignment</td>
</tr>
<tr>
<td>IIA Practice Standards</td>
<td>Risk assessment</td>
<td>Control activities</td>
<td>Internal control</td>
</tr>
<tr>
<td>general control.</td>
<td>systems control.</td>
<td>Universal control.</td>
<td>user controls.</td>
</tr>
<tr>
<td>Applications control.</td>
<td>Specific authorization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe on of these technical terms. Indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms. (Note: Write down in your answer book the number of the statement and the appropriate term or none. Do not copy the statement in the answer book):

1. A government audit to determine whether an entity is acquiring, protecting, and using its resources economically and efficiently and whether the entity has complied with laws and regulations concerning such matters.
2. The degree to which the organization's objectives are accomplished.
3. The review of an organization for efficiency and effectiveness.
4. Management's ongoing and periodic assessment of the quality of internal control performance to determine that controls are operating as intended and modified when needed.
5. Company-wide policies for the approval of all transactions within stated limits.
6. The actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about control and its importance to the entity.
7. Segregation of the following activities in an organization: custody of assets, accounting, authorization, and operational responsibility.
8. Management's identification and analysis of risks relevant to the preparation of financial statements in accordance with generally accepted accounting principles.
9. Policies and procedures that help ensure necessary actions are taken to address risks in the achievement of the entity's objectives.
10. A process designed to provide reasonable assurance regarding the achievement of management's objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.

**Question (2)(30 points):** In your answer paper indicate the number of each of the following questions attached with the letter that best answers each question:

1- Parallel testing is more expensive than pilot testing.  a. True  b. False
2- The effectiveness of manual controls depends solely on the competence of the personnel performing the controls.  a. True  b. False
3- _____ deal with ongoing or periodic assessment of the quality of internal control by management.
   a. Quality monitoring activities  b. Monitoring activities  c. Oversight activities  d. Management activities
4- Which of the following is not an example of an applications control?
   a. An equipment failure causes system downtime.
   b. There is a preprocessing authorization of the sales transactions.
   c. There are reasonableness tests for the unit selling price of a sale.
   d. After processing, all sales transactions are reviewed by the sales department.
5- Which of the following is not a general control?
   a. Reasonableness test for unit selling price of a sale.
   b. Equipment failure causes error messages on monitor.
   c. Separation of duties between programmer and operators.
   d. Adequate program run instructions for operating the computer.
6- Programmers should be allowed access to:
   a. user controls.    b. general controls.    c. systems controls.    d. applications controls.
7- Because general controls have a _____ effect on the operating effectiveness of application controls, auditors must consider general controls.
   a. nominal   b. pervasive   c. mitigating   d. worsening
8- Which of the following is not a general control?
   a. The plan of organization and operation of IT activity.
   b. Procedures for documenting, reviewing, and approving systems and programs.
9- In comparing (1) the adequacy of the hardware controls in the system with (2) the organization’s methods of handling the errors that the computer identifies, the independent auditor is:
   a. unconcerned with both (1) and (2).    b. equally concerned with (1) and (2).
   c. less concerned with (1) than with (2).    d. more concerned with (1) than with (2).
10- Effective Internal Control Framework - AICPA
    b. Internal Control - Integrated Framework - COSO
    c. Enterprise Internal Control – COSO    d. Enterprise Internal Control - AICPA
11- When one material weakness is present at the end of the year, management of a public company must conclude that internal control over financial reporting is:
   a. insufficient.    b. inadequate.    c. ineffective.    d. inefficient.
12- A procedure that would most likely be used by an auditor in performing tests of control procedures that involve segregation of functions and that leave no transaction trail is:
   a. inspection.    b. observation.    c. reperformance.    d. reconciliation.
13- If the results of tests of controls support the design and operations of controls as expected, the auditor uses _____ control risk as the preliminary assessment.
   a. a lower    b. the same    c. a higher    d. either a lower or higher
14- Internal control reports issued by public companies must identify the framework used to evaluate the effectiveness of internal control. Which of the following is the most common framework in the U.S.?
   a. Effective Internal Control Framework – AICPA
   b. Internal Control - Integrated Framework – COSO
   c. Enterprise Internal Control – COSO    d. Enterprise Internal Control - AICPA
15- Narratives, flowcharts, and internal control questionnaires are three common methods of:
   a. testing the internal controls.
   b. documenting the auditor’s understanding of internal controls.
   c. designing the audit manual and procedures.
   d. documenting the auditor’s understanding of a client’s organizational structure.

**Answer three from the following Four questions:**

**Question (3)(20 points):**
Identify the six categories of general controls and give one example of each.

**Question (4)(20 points):**
Explain the five components of the COSO internal control framework.

**Question (5)(20 points):**
Explain how the auditor can obtain and document an understanding of internal control.

**Question (6)(20 points):**
Define and distinguish among operational auditing, Internal auditing and financial auditing.
Operations Research
4th year students 15/6/2010

Answer the following Questions:

**Question No. (1):**

**I- Queuing Systems:**

(1) In a gas service machine station lies on Egypt-Qena Road, there is only one machine. Cars arrive according to a poisson distribution with a mean of 25 car per hour, and may wait in the facility's waiting line if the machine is busy. The time of taking gas for a car have an exponential distribution with mean of two minutes.

**Required:**

1) In one line determine the characteristics of this queuing model.

2) Determine the first three steady-state probabilities and the probability that the machine is either wait the cars or busy.

3) Determine the measures of performance (Effectiveness) of this gas station.

**II- Network Analysis:**

(45 minutes) (20 degree)

The following table represents the three different types of time estimate (per week) for achieving the different activities for a project (the optimistic time “a”, the pessimistic time “b” and the most likely time “m”).

<table>
<thead>
<tr>
<th>Activity</th>
<th>Path</th>
<th>Time Estimate (per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Start</td>
<td>End</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>E</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>G</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>H</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>I</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

**Required:**

1-By using PERT technique what is the minimum time estimate for performance or achieving the project?

2-What is the probability for achieving the project in at most 23 week?

3-What is the minimum time estimate for achieving the project with probability 95%.

<table>
<thead>
<tr>
<th>Z</th>
<th>2.03</th>
<th>2.18</th>
<th>1.645</th>
<th>1.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Φ(z)</td>
<td>0.9788</td>
<td>0.9854</td>
<td>0.95</td>
<td>.975</td>
</tr>
</tbody>
</table>
Consider the transportation problem in which three factories (sources) A1, A2 and A3 supply three stores (Destinations) B1, B2 and B3 with a homogeneous commodity. The number of supply units available at the sources are 340, 660 and 230; those demanded at the stores are 320, 660 and 250 commodity units respectively. The following table represents the unit cost (L.E) for transporting each unit of commodity from the set of sources to the set of destinations.

<table>
<thead>
<tr>
<th>Source</th>
<th>Destination</th>
<th>B1</th>
<th>B2</th>
<th>B3</th>
<th>Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>10</td>
<td>7</td>
<td>8</td>
<td></td>
<td>340</td>
</tr>
<tr>
<td>A2</td>
<td>9</td>
<td>12</td>
<td>4</td>
<td></td>
<td>660</td>
</tr>
<tr>
<td>A3</td>
<td>11</td>
<td>13</td>
<td>9</td>
<td></td>
<td>230</td>
</tr>
<tr>
<td>Demand</td>
<td>320</td>
<td>660</td>
<td>250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Required:**

1- Formulate the transportation problem as a linear programming model.

2- By using Vogel’s Approximation method for determining the initial solution and the modified distribution method (or the method of simplex multipliers) for the test of optimality determine the optimum transportation program?

**II- Game Theory:** (25 minutes)  (15 degree)

If you have the following payoff matrix between the two player (A) and (b):

\[
A = \begin{bmatrix}
-1 & 4 & 7 \\
5 & -1 & 1
\end{bmatrix}
\]

**Required:**

1- Interpret the meaning of the 1st row elements in the given payoff matrix. Did the game have a saddle point? 9

2- Formulate the game as a LPM.

3- By using dominance principle and the set of sub-matrices determine the optimum strategies for each player and the value of game?
**QUESTION NO. (3):**

(An hour) (35 degree)

**Linear Programming Model:**

A furniture company manufactures desks and chairs. Each product passes through three production stages: the sawing cuts department (SCD), the assembly department (ASSD) and the finishing to the painting department (FPD). The following table represents some data for the need of unit produced (hour) for each product:

<table>
<thead>
<tr>
<th>Product Department</th>
<th>Desk Hour</th>
<th>Chair</th>
<th>Maximum daily availability (hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCD</td>
<td>2</td>
<td>1</td>
<td>400</td>
</tr>
<tr>
<td>ASSD</td>
<td>2</td>
<td>2</td>
<td>500</td>
</tr>
<tr>
<td>FPD</td>
<td>1</td>
<td>3</td>
<td>600</td>
</tr>
<tr>
<td>Price (L.E)</td>
<td>10</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total cost (L.E)</td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

If the maximum number of daily unit produced from the two productions are 300 and 400 respectively.

Required:

1- Formulate the problem as a LPM.

2- Graphically; determine the optimum solution, the different types of solutions resulted from the solution of LPM, and the redundant constraints if there are exist.

3- By using the suitable simplex method, and from your preceding result in (2) determine the optimum solution tableau.

4- Find the dual problem and determine its optimum solution tableau using your preceding results in (3).

5- By using two different method determine the shadow prices (comment)?

My best wishes
And good luck ..
Answer the following Questions:

Question One (40 marks):
The following is the Profit & Loss Account of a sole proprietorship as presented to the Tax Department enclosed to the Tax Declaration of the year ended Dec. 31, 2009:

<table>
<thead>
<tr>
<th>Wages, salaries &amp; Bonuses</th>
<th>60,000</th>
<th>Gross Profit</th>
<th>280,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>40,000</td>
<td>Discount received</td>
<td>20,000</td>
</tr>
<tr>
<td>Insurance premiums &amp; deposits</td>
<td>20,000</td>
<td>Recovered bad debts</td>
<td>40,000</td>
</tr>
<tr>
<td>Advertising expenses</td>
<td>30,000</td>
<td>Stock dividend Revenue</td>
<td>60,000</td>
</tr>
<tr>
<td>Taxes</td>
<td>26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General expenses</td>
<td>14,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>210,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>400,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tax examination of the Firm’s books revealed the following:

1. Wages, salaries and bonuses included:
   - L.E.20,000 an annual salary for the Son of the Firm’s Owner. He actually manages the Firm, however, the equivalent manager’s salary is L.E.16,000.
   - L.E.4,000 cash drawings of the Firm’s Owner.
   - L.E.12,000 bonuses to the Firm’s staff members as a distribution of the Firm’s profits, and
   - The remaining is the staff members’ salaries.

2. Reserves included:
   - L.E.10,000 a reserves for fixed assets’ depreciation,
   - L.E.12,000 a reserves for doubtful debts, and
   - The remaining is an emergency provision.

3. Insurance premiums and deposits included:
   - L.E.10,000 a deposit for a governmental bid, and
   - The remaining are fire and the insurance premiums on the Firm’s assets.

4. Advertising expenses included:
   - L.E.20,000 the cost of an advertising campaign of a new product that will last for 5 years starting from October 1, 2009, and
   - The remaining are periodical advertising costs.

5. Taxes included:
   - L.E.18,000 tax on natural persons’ revenues deducted from the sales revenue that the firm earned from sales to a governmental entity, and
   - The remaining are custom duties for imported goods.

6. Miscellaneous expenses included L.E.9,000 as joint expenses.

7. The recovered bad debts were approved in full in 2008 by the Tax Department, when these debts were considered uncollectible.

Required: Prepare the Firm’s tax declaration for the 2009, and determine the taxable net profit, given that the Firm’s operation results for the previous years were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss</td>
<td>L.E.200,000</td>
<td>L.E.40,000</td>
<td>L.E.50,000</td>
<td>L.E.30,000</td>
<td>L.E.50,000</td>
<td>L.E.40,000</td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Question Two (30 marks):**
The Profit & Loss Account of a private Egyptian Corporation, listed in the stock market, for the year ended on December 31, 2009 showed a net profit of L.E.1,000,000. The following information is also available:

1- The following items were charged to the Profit & Loss Account:
   - L.E.20,000 bonuses to the chairman and elected members of directory board for their managerial work.
   - L.E.5,000 attendance allowances.
   - L.E.30,000 advertising campaign that will last for 3 years starting from January 1, 2010.
   - L.E.50,000 workers' bonuses (Salaries of 5 months).
   - L.E.400 building tax for the building that is owned and occupied by the firm (in the rate of 10%).
   - L.E.30,000 corporate tax of the previous year.
   - L.E.60,000 depreciation of fixed assets (including the building).
   - L.E.10,000 donations to poor families and L.E.20,000 donations to an Egyptian Charity Association.

2- The Profit & Loss Account was credited by the following:
   - L.E.40,000 stock dividend revenues.
   - L.E.30,000 capital gains on the sale of a truck purchased for L.E.70,000 and sold for L.E.60,000 when its accumulated depreciation was L.E.45,000.

**Required:** Prepare the firm's tax declaration for 2009.

**Question Three (30 marks):**
An industrial producer keeps regular books, and is registered with the Sales Tax Administration. The following details about the producer were made available for the month of December 2009:

1- Total sales during December amounted to L.E.805,000 as follows:
   a. L.E.200,000 of commodity (A) taxable at the rate of 10%.
   b. L.E.505,000 of commodity (B) taxable at the rate of 5%.
   c. L.E.100,000 of commodity (C) tax-free.

2- Trade discount on sales of commodity (A) amounted to 20%. Transport expenses of commodity (B) amounted to L.E.5,000 included in the value of the commodity.

3- Sales returns during the month amounted to L.E.100,000 as follows:
   a. L.E.30,000 of sales of commodity (A).
   b. L.E.50,000 of sales of commodity (B).
   c. L.E.20,000 of sales of commodity (C).

4- The purchases (inputs) during the month amounted to L.E.300,000 as follows:
   - L.E.100,000 purchases subjected to tax were used in producing commodity (A) of which L.E.30,000 from an unregistered seller with the Administration.
   - L.E.150,000 purchases subjected to tax were used in the production of commodity (B).
   - L.E.50,000 purchases exempted from tax were used in producing commodity (C).

**Required:** Prepare a summary of the General Sales Tax.

*Best Wishes******** ALI ABDELKARIM RAWY*

[Signature]
Answer the following question:

**Question (1)(10 points):** Listed below are some technical Auditing terms:

<table>
<thead>
<tr>
<th>Item ID</th>
<th>Item Name</th>
<th>Units Sold</th>
<th>QTY on Hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>drop-down list</td>
<td>credit memo</td>
<td>Inventory</td>
<td>Payment to Vendors</td>
</tr>
<tr>
<td>business status center</td>
<td>case sensitive</td>
<td>dialog box</td>
<td>drill down</td>
</tr>
<tr>
<td>vendor credit memos</td>
<td>backing up</td>
<td>batch posting</td>
<td>WIMP</td>
</tr>
<tr>
<td>real-time posting</td>
<td>option buttons</td>
<td>navigation bar</td>
<td>net loss</td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe one of these technical terms. Indicate the accounting term described, or answer “None” if the statement does not correctly describe any of the terms. (Note: Write down in your answer book the number of the statement (from 1 up to 10 and the appropriate term or none. Do not copy the statement in the answer book):

1- It appears at the left side of the Peachtree main window and offers access to seven "pages" called Navigation Centers.
2- It displays a variety of general business information, including account balances, revenue figures, receivables and payables data, and action items.
3- It includes a summary of customer information, access to recently used customer reports, and an overview of your company’s aged receivables.
4- It shows outstanding customer bills in each of the four aging categories set up in Customer Defaults.
5- It displays information and access points related to your company's inventory items. It includes a summary of item information, access to recently used inventory reports, and a graphic analysis of how the cost of sales is trending.
6- Use this feature like a template or model upon which to build all your customer records.
7- He can be associated with any sales transaction.
8- It lists all assets, liabilities, and capital of a business entity as of a specific date, such as the last day of an accounting period or the last day of the year.
9- It compares actual income figures for all G/L accounts against budget figures for those accounts.
10- It lists budget figures for the current year along with actual figures for the current year and for the fiscal year just passed.

**Question (2)(30 points):** In your answer paper indicate the number of each of the following questions attached with the letter that best answers each question:

1. One advantage of Windows is that it standardizes terms and operations used in software programs.
   A. TRUE  
   B. False
2. The Quotes Journal lists the sales tax for the transaction, the price for each item and the amount to be received from the customer.
   A. TRUE  
   B. False
3. Some customers are offered a sales discount because they make their payments in a timely manner.
   A. TRUE  
   B. False
4. Clicking on the Journal icon on the Purchase Order window lets you see the general ledger.
   A. TRUE  
   B. False
5. In Peachtree, the Purchases/Receive Inventory window is also the purchase order journal.
   A. TRUE  
   B. False
6. The only way to access commands in Windows is to use the pull-down menus.
   A. TRUE  
   B. False
7. The purpose of using the sample company is to become familiar with:
   A. The software  B. Accounting procedures  C. The navigation bars
   D. The generally accepted accounting principles  E. None of the above

8. Commands that Peachtree automatically selects are called:
   A. Objects  B. Dialog boxes  C. Defaults  D. Shortcuts

9. The following accounts are debited and credited when you purchase inventory on account:
   A. Dr. Inventory account, credit Account Receivable/vendor
   B. Dr. Accounts Payable/Vendor; Cr. expense account
   C. Dr. Inventory account; Cr. Accounts Payable/Vendor
   D. Dr. Accounts Receivable/Customer; Cr. Sales account

10. On the Navigation Bar, make the following selections to display the Vendor Ledgers Report:
    A. Vendors & Purchases page, link to View Detailed List and select Vendor Ledgers, Display
    B. Vendors & Purchases page, link to View all Vendor & Purchases Reports and select Vendor
        Ledgers, Display
    C. Maintain; Customers/Sales Reps

11. The Vendor Ledgers Report is another name for the:
    A. Accounts Receivable subsidiary ledger  B. Inventory subsidiary ledger
    C. Accounts Payable open items report  D. Accounts Payable subsidiary ledger
    E. Both a and b are correct

12. The Options pull-down menu has selections that allow the user to:
    A. Check global settings  B. Define an Internet connection  C. Print reports
    D. Enter journal entries

13. On the Navigation Bar, make the following selections to enter a customer receipt:
    A. Tasks; Payments
    B. Customers and Sales page, click on the Sales Invoices icon and select View and Edit Sales
       Invoices
    C. Customers and Sales page, click on the Receive Money icon and select Receive Money from
       Customers
    D. Vendors and Purchases page, click on the Write Checks icon and select New Check

14. The employee deductions display as negative amounts on the Payroll Entry window because:
    A. They are added to the paycheck amount  B. They are not used to compute the paycheck
    C. They are deducted from the employee’s gross pay  D. The employer always pays deductions from the paycheck

15. When you purchase inventory stock-type items, the journal entry is:
    A. Dr. the Accounts Payable/Vendor account; Cr. The Inventory account
    B. Dr. the Accounts Receivable/Customer account; Cr. the Sales account
    C. Dr. the Inventory account; Cr. The Accounts Payable/Vendor account
    D. Dr. the Cash account; Cr. the Revenue account

16. When you sell a stock item on account, PCA not only updates Accounts Receivable but it computes:
    A. Cost of Goods Sold  B. Sales Invoice total  C. Quantity to be sold
    D. a and b only  E. a, b and c above

17. On the Employee Defaults window, the Employee Fields folder tab is for:
    A. Liability accounts that are related to employee deductions
    B. Assets accounts that are related to employee deductions
    C. Expense accounts that are related to employee deductions
    D. Liability accounts that are related to employer deductions

18. The Purchases: Receive Inventory window is also the Purchase Journal.  A. TRUE  B. False

19. If the special journal windows (Purchases/Receive Inventory, Payments, or Sales/Invoicing) do not show
    the general ledger accounts for accounts payable, accounts receivable, and GL account column, you need to check their global settings.
    A. TRUE  B. False

20. Employees and employers are required to pay local, state, and federal payroll taxes.
    Employers must withhold taxes from each employee's paycheck.
    A. TRUE  B. False
**Question (3)(30 points):**

A - List the steps required to set up a record for converting a quote to a sales order

B - List the steps required to set up payroll default information

C - The following are two of The Peachtree windows. In your answer book, indicate the name of the window and explain the main functions and parts of them.
Question (4)(30 points):

A- List the steps required to set up a record for a new Sales invoice

B- The following is one of The Peachtree windows marked with six numbered arrows. In your answer book, indicate the number of each arrow with a detailed explanation for the icon at the head of the arrow.

1. Business Status
2. Customers & Sales
3. Inventory & Services
4. Employees & Payroll
5. Vendors & Purchases Tasks
6. Vendors & Purchases

Best wishes
**First Question**

Colchester's Toy Store has a magic department near the main door. Suppose that management is considering dropping the magic department, which has consistently shown an operating loss. The predicted income statements of three product lines are shown as follows:

<table>
<thead>
<tr>
<th>Sales</th>
<th>General</th>
<th>Electronic</th>
<th>Magic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable expenses</td>
<td>700,000</td>
<td>800,000</td>
<td>600,000</td>
<td>2100,000</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>420,000</td>
<td>560,000</td>
<td>480,000</td>
<td>1460,000</td>
</tr>
<tr>
<td>Fixed expenses</td>
<td>280,000</td>
<td>240,000</td>
<td>120,000</td>
<td>640,000</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>160,000</td>
<td>140,000</td>
<td>150,000</td>
<td>430,000</td>
</tr>
<tr>
<td></td>
<td>120,000</td>
<td>100,000</td>
<td>(30,000)</td>
<td>210,000</td>
</tr>
</tbody>
</table>

The fixed expenses (130,000) of magic department include the wages and salaries of employees of 50,000. These employees will be released if the magic department is closed. Other fixed expenses will continue even in case of closing magic department. If the magic department is dropped, the company will use the vacated space for either more general products or more electronic products. The expansion of general products would not entail hiring any additional person help, but more electronic products would require an additional person at an annual cost of 30,000. The manager thinks that sales of general product would increase by 200,000 and sales of electronic products by 300,000.

**Instructions**
1- Should the magic department be closed? Explain (show computations).
2- There is any qualitative factors that would influence your decision.

**Second Question**

Manchester Corporation has a R&D program and uses target costing to aid in the final decision to release new products to production. A new product is being evaluated. Market research revealed that the expected sales for this product will be 50,000 units at sale price of $250. Design and production engineering departments determined that the total costs over product life for various value-chain functions using the existing process technology are as follows:

<table>
<thead>
<tr>
<th>Value-chain Functions</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development</td>
<td>$1500,000</td>
</tr>
<tr>
<td>Design</td>
<td>$850,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Marketing</td>
<td>$900,000</td>
</tr>
<tr>
<td>Distribution</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>Customer Service</td>
<td>$750,000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>$10,500,000</strong></td>
</tr>
</tbody>
</table>
Management has a target profit percentage of 20% of sales. Production engineering indicates that new process technology can reduce the manufacturing cost by 40%, but it will cost $1,500,000.

**Instructions**
1- Assuming the existing process technology is used, should the new product be released to production? Explain (show computations).
2- Assuming the new process technology is purchased, should the new product be released to production? Explain (show computations).

**Third Question**

Essex Company makes an electronic component for its product. Production costs for 100,000 units of the component are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total costs for 100,000 units</th>
<th>Cost per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>$500,000</td>
<td>5</td>
</tr>
<tr>
<td>Direct labor</td>
<td>300,000</td>
<td>3</td>
</tr>
<tr>
<td>Variable factory overhead</td>
<td>400,000</td>
<td>4</td>
</tr>
<tr>
<td>Fixed factory overhead</td>
<td>300,000</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total manufacturing costs</strong></td>
<td><strong>1500,000</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

Another manufacturer has offered to supply the components at a price of $14 each. If the company discontinued its production of the component, fixed overhead would continue except that the cost of $100,000 could be avoided.

**Instructions**
1- Assume that that the capacity now used to make the component will become idle if the components are purchased. Should buy or make components?
2- Assume that the capacity now used to make the component will be used to increase the sales of main product by $500,000 (yield profit contribution of 40% of sales).
3- List three qualitative factors that would influence your decision.

**Fourth Question**

The following data regarding Liverpool Company is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Old Equipment</th>
<th>New Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Useful life, in years</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Current age, in years</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Useful life remaining, in years</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Original cost</td>
<td>$ 40,000</td>
<td>$ 35,000</td>
</tr>
<tr>
<td>Accumulated depreciation (old)</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>Book value (old)</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>Disposal value now (old)</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>Disposal value in 5 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual cash operating costs</td>
<td>12,000</td>
<td>8,400</td>
</tr>
</tbody>
</table>
The manager is trying to decide whether to replace the old equipment. Because of rapid changes in technology, he expects the new equipment to have only a five-year useful life.

**Instructions**

1- Tabulate a cost comparison that includes both relevant and irrelevant items for the next three years together.
2- Tabulate a cost comparison of all relevant items for the next three years together.
3- Which tabulation is clearer, one in requirement 1 or 2?

**Fifth Question**

Kent wholesaler is preparing its sales and purchases budgets for the second quarter of 2009. The data regarding these budgets as follows:

1- Expected sales are: $600,000 in April; $700,000 in May; $800,000 in June and $900,000 in July. Sales are 10% cash and 90% on credit. 50% of credit sales are collected in the month of sale, 30% in the next month and 20% in the following month. Sales in February were $400,000 and in March were $500,000.

2- Gross profit percentage is 30% of sales.

3- Ending inventory is 20% of the cost of goods sold for the following month.

4- Purchases in February were $400,000 and in March were $450,000. Purchases are paid as follows; 20% in the month of purchase, 50% in the next month and 30% in the following month.

**Instructions**

1- Prepare a sale budget schedule and a cash collections (from sales) budget schedule for April, May and June.
2- Prepare a purchase budget schedule and a cash payments (for purchases) budget schedule for April, May and June.

*Best Wishes*
First Question

Record the following transactions in the general journal of the Alexandria Bank:

1- A customer deposited L.E. 9000 cash to his checking account.

2- A customer deposited L.E. 6000 cash and a check for L.E. 4000, drawn on us, to his saving account.

3- A customer transferred L.E. 6000 from his saving account to his checking account.

4- A customer paid in cash L.E. 12000 to the teller, to be deposited to:
   L.E. 5000 checking account
   L.E. 7000 saving account

5- A customer withdrew L.E. 8000 from his checking account; he received L.E. 3000 in cash and a cashier check for the rest.

6- A customer purchased a certificate of deposit for L.E. 25000, to be paid as follows:
   L.E. 15000 from his checking account
   L.E. 10000 from his saving account

7- A customer made a commercial loan payment in amount of L.E. 12000 and loan interest in amount of L.E. 1500 with a check drawn on another bank.

8- A customer requested the bank to wire transfer funds, L.E. 5000 to another bank and withdrew the amount from his saving account.

9- The bank sold L.E. 3000000 of reserve funds at the Central Bank for three days at an interest rate of 12%. After three days, the bank is repaid the loan and interest by adding the total amount (loan & interest) to the bank account at Central Bank.

10- The bank purchased L.E. 2000000 of reserve funds at the Central Bank for three days at an interest rate of 12%. After three days, the bank repaid the loan and the interest by deducting the total amount (loan & interest) from the bank account at the Central Bank.

11- The bank sold L.E. 1500000; Egyptian Governmental securities with an agreement to purchase them in 15 days. The interest rate is 12%. After 15 days, the securities returned to the bank. The payment and collection were done throughout the bank account at Central Bank.

12- On May 1, a customer discounted a note amounted to L.E. 600000 at Alexandria Bank at a discount rate of 12%. The note matures on August 31, and the amount paid in cash. On June 1, the Alexandria Bank rediscouned the note at the central Bank of Egypt at a discount rate of 12%.
Second Question

On 1/1/2007, Cairo Bank purchased treasury bonds for L.E. 846000. The bonds mature on 31/12/2009, and the face amount of the bonds is L.E. 900000. The interest rate is 12% and the interest coupon is due June 30 and December 31.

Instructions
1- Record the purchase of the treasury bonds on 1/1/2007. Payment was made by cashier’s check.
2- Record the interest earned on bonds at the end of January and February 2007.
3- Record the collection of interest on June 30, 2007. Payment was made directly to the bank’s account at the Egyptian Central Bank.
4- Record the required entries, assuming that the bank sold the bonds on 31/8/2009 for L.E. 891000, plus the accrued interest.

Third Question

On 1/4/2008 the Red Star Company borrowed L.E.48000 from Misr Bank for 12 months on an installment loan basis. The interest on the loan was 4680. The borrower will make loan repayments in equal monthly amounts at the beginning of each month.

Instructions
1- Record the payment of the loan to Red Star Company.
2- Prepare the journal entries to record the first three months’ loan repayment.

Fourth Question

a. Define the following:
   1- Claims       2- Reinsurance       3- Bonus

b. The following transactions are conducted by Elshark Insurance Company (Life insurance branch) during the month of July 2009; the company reinsures 20% of its life policies with Misr Reinsurance Company:

1- The direct premiums conducted and collected during July totaled L.E. 1250000. The different fees items regarding such premiums were as follows: 12000 stamp fees, 8000 supervision fees, and 10000 issuance fees. Reinsurance premiums accepted amounted to L.E. 450000.

2- Direct claims paid during the month were as follows:
   By Death               120000
   By Maturity            70000
   By Surrender           60000
   Pensions & Annuities   25000
   Prizes                 15000

In addition, the reinsurance claims on premium accepted were as follows:
   By Death               20000
   By Maturity            15000
   By Surrender           13000
   Pensions & Annuities   12000
3- Different items of income from investments accrued and collected were as follows:
   Securities revenues  15000
   Loans interest revenues  7000
   Real Estate rent revenue  20000
   Interest revenues on deposits  9000
   Interest revenue on governmental bonds  12000

In addition, the real estate expenses accrued and paid amounted to L.E. 3000.

4- The direct commission due to the producers totaled L.E. 150000. The reinsurance commission due to ceding companies amounted to L.E. 35000. Other production expenses accrued and paid amounted to L.E. 25000.

Further, Premiums exempted from being paid amounted to L.E. 9000. Bonuses paid in cash totaled L.E. 6000 and bonuses used in reduction of premiums totaled L.E. 5000.

5- General and administrative expenses accrued and paid amounted to L.E. 25000; the appropriated part was 80%.

6- Computer center expenses accrued and paid totaled L.E. 15000; the appropriated part was 60%.

7- Other expenses payable totaled L.E. 8000; the appropriated part was 75%.

8- Provisions are estimated on a monthly basis as follows:
   - Depreciation  3000
   - Retirement Reward  4000
   - Premium Receivable  6000
   - Other provisions  2000

9- Technical provisions were as follows:
   At beginning of the month 60000
   At ending of the month  80000

Instructions
1- Prepare the journal entries to record the above transactions.
2- Prepare the closing entries at the end of July.

Best Wishes