

Final Examination

Module „Finance and Accounting in English”

List of questions

Introduction to Accounting

1. Appearance and historical development of Accounting. Accounting and double entry bookkeeping. Accounting as a supreme form of theoretical knowledge. Functions of Accounting. Accounting and an information system. Users of accounting information and their requirements. Branches of Accounting.
2. Basic accounting elements and accounting equation. Assets as an accounting element: definition and recognition. Classification of assets. Liabilities as accounting elements: definition, recognition and classification. Owner`s capital (equity) and its forms. Income and expenses and their impact on owner`s capital.
3. Identity and components of the Accounting method. The balance sheet: identity, contents and structure. Types of balance sheets. Business transactions and their impact on the balance sheet. The system of accounts: definition and purposes. Classification of accounts. Chart of accounts. Double entry bookkeeping technique. Types of journal entries. Balancing-off accounts. Closing entries. Accounting errors. Relationship between the balance sheet and the system of accounts in the accounting cycle.
4. Documentation of business transactions in bookkeeping system as a component of the Accounting method. Types of documents. Documents turnover in an entity. Stock-taking, measurement and costing as components of the Accounting method. Periodic summary of bookkeeping data into financial statements.

Financial Accounting

5. Financial Accounting and Financial Reporting. The regulation of Financial Reporting. The usefulness of accounting standards. Conceptual Framework for Financial Reporting. The objective of general purpose financial statements. Underlying assumptions. Qualitative characteristics of useful financial information. Definition, recognition and measurement of the elements from which financial statements are constructed. Profit measurement. Concepts of capital and capital maintenance.
6. Accounting for Property, Plant and Equipment. Initial recognition, initial measurement and subsequent measurement of Property, Plant and Equipment. Recording and presentation of revaluations at fair value under revaluation model. Accounting for acquisition and disposal of Property, Plant and Equipment. Depreciation and depletion. Subsequent expenditure and impairment of Property, Plant and Equipment.
7. Accounting for Leases. Accounting by lessees: the right-of-use asset and the lease liability. Lease payments. Residual value guarantee. Accounting by lessors: classification of leases as a finance lease or an operating lease. Lease payments. Unguaranteed residual value. Recognition of interest expense or interest income on leases. Recognition of rental income on an operating lease.

8. Accounting for Investment Property. Applying the definition of Investment Property. Recognition, initial measurement and subsequent measurement. Transfers to or from Investment Property classification. Disposal of Investment Property.
9. Accounting for Intangible Assets. Definition, recognition and measurement. Accounting treatment of Research and Development costs. Classification of Intangible Assets based on their useful life. Subsequent measurement of Intangible Assets.
10. Accounting for Inventories. Definition, recognition and measurement. Write-down of Inventories to their net realisable value. Perpetual and Periodic inventory measurement. Cost formulas and expense recognition. Impact of inventory costing on reported profits. Accounting for manufactured finished goods and their sale.
11. Accounting for Revenue recognition. The five-step model framework. Distinct goods or services and performance obligations in the contract. Determining the transaction price. Revenue recognition over time or at a point in time. Accounting for Trade and Other Receivables. Accounting for uncollectible amounts on receivables and their presentation.
12. Accounting for Current and Long-term liabilities. Issuance of bonds and notes. Recognition and presentation of Provisions and disclosure of Contingent Liabilities.
13. Presentation of financial statements in accordance with the International Accounting Standards. Components of financial statements. Identification of financial statements. Reporting period.
14. Accounting for Shareholders` equity. Issuance of shares. Reacquisition of own shares and retirement or sale of treasury shares. Calculating Earnings per share.
15. Accounting for profit or loss for the period. The Statement of Profit or Loss and Other Comprehensive Income: contents, structure and purposes. Recording and presentation of operating expenses by nature or function. Recording and presentation of finance costs and finance income. Accounting for current and deferred income taxes. Distribution of retained earnings. Retained losses recovery.
16. The Statement of Financial Position (balance sheet) and the Statement of Changes in Equity: contents, structure and purposes. Current/non-current or long-term/short-term classification of assets and liabilities on the balance sheet.
17. The Statement of Cash Flows: contents, structure and purposes. Classification of cash flows. Cash and cash equivalents. Presentation of cash flows of interest and dividend. Direct and indirect method of preparing the Statement of Cash Flows.

Management Accounting

18. Conception about the essence of income and costs and their classification for the purpose of Management Accounting. Direct costs and manufacturing overhead. Manufacturing costs and non-manufacturing costs. Product costs versus period costs. Cost classifications for predicting cost behavior. Opportunity costs. Sunk costs.
19. Introduction to Costing theory. Costing methods. Job-order costing: cost flows – material usage; cost flows – labor, application of manufacturing overhead. Process costing: calculating and using equivalent units of production; equivalent units of

- production – weighted average method; equivalent units of production – FIFO method. Differences between Job-order and Process costing. Activity-based costing.
20. Cost behavior: analysis and use. Cost – Volume – Profit relationships. Contribution margin ratio. Break-even analysis. Equation method. Contribution margin method. Target profit analysis. The Margin of Safety. Operating leverage. Multi-product break-even analysis. Assumptions of CPV analysis.
 21. Profit planning. Advantages of budgeting. Responsibility Accounting. The Sales budget. Expected cash collections. The Production budget. The Direct materials budget. The Direct labor budget. Manufacturing overhead budget. Selling and administrative expense budget. The Cash budget. The budgeted income statement. The budgeted Balance sheet.
 22. Setting Standard costs. Standard cost variances. Variance analysis cycle. Material variances. Responsibility for material variances. Labor variances. Responsibility for labor variances. Flexible budgets and overhead analysis: static budgets and performance reports. Flexible budget performance report. Overhead rates and overhead analysis.

Banking Accounting

23. Accounting for equity and debt capital in commercial banks. Brief overview of equity. Accounting for share capital. Accounting for capital reserves. Accounting for profits and losses. Definition and classification of debt capital. Accounting for received term deposits. Accounting for debt on current and other accounts. Accounting for loans obtained and other debts.
24. Accounting for cash-emission activities. Accounting for operations of Bulgarian National Bank (BNB). Accounting for cash transfers in BNB branches and in commercial banks. Accounting for cash operations in local currency. Accounting for cash operations in foreign currency.
25. Accounting for bank loans. Main characteristics and classification of bank loans. Accounting for contracted, but unutilised loans. Accounting for granted loans. Accounting for loan collaterals. Accounting for loan repayments. Accounting for non-performing loans.
26. Accounting for non-cash payments. Main characteristics of domestic non-cash payments and foreign payments. Accounting for inter-bank money transfers. Accounting for credit transfer payments. Accounting for payments through direct debit. Accounting for payments via covered letter or credit. Accounting for payments via non-covered letter or credit. Accounting for payments via cheque.
27. Accounting for bank expenses and revenues. Nature, characteristics and classification of bank expenses. Accounting for financial expenses. Accounting for operating expenses by nature (cost element). Accounting for prepayments. Nature and characteristics of bank revenues. Accounting for finance income. Accounting for income from sales. Accounting for deferred income.

Corporate Finance

28. Risk and return in investment decisions: Relationship between risk and return. Components of Investment Risk. Diversification and Portfolio Theory. Beta Coefficient and Market Risk. Capital Asset Pricing Model.
29. Valuation of investments in financial assets: Valuing fixed-income securities – bonds, annuities, perpetuities, preferred stock. Valuing common stock.
30. Valuation of investment in real assets: Capital Budgeting. Definition and estimation of net cash flows. Methods of assessment of capital-investment projects. Accounting for inflation in the valuation of investments in real assets.
31. Corporate financing: Sources of long-term finance. Cost of debt and equity. Weighted average cost of capital.
32. Financial and capital structure: Financial leverage and financial risk. Business risk and operating leverage. Capital structure and company value.
33. Working capital management: Working capital and short-term financing. Inventory management, receivables management and cash management.

Monetary Theory and Policy

34. Money and interest rates. Meaning of money. Functions of money. Evolution of the payments system. Measuring money. Essence of interest rates. Measuring interest rates. Present value. Yield to maturity. Prices of financial instruments. Alternative measures of interest rates. Real and nominal interest rates. The theory of asset demand.
35. Behavior of interest rates. Risk and term structure of interest rates. Supply and demand in the bond market. Changes in equilibrium interest rates. Supply and demand in the money market: the liquidity preference framework. Changes in equilibrium interest rates in the liquidity preference framework. Money supply and interest rates. Risk structure of interest rates. Term structure of interest rates.
36. The Central Bank, multiple deposit creation and the money supply process. The central bank balance sheet and monetary base. Participants in the money supply process. Control of monetary base. Multiple deposit creation: a simple model. Critique of the simple model. The complete model of money supply and the money multiplier. Determinant of money supply. Bank panics.
37. Monetary policy instrument. Conduct of monetary policy: goals and target. Open market operations. Discount policy. Reserve requirement. Administrative (non-market) instruments. Goals of monetary policy. Intermediate and operating targets of monetary policy. Choosing intermediate and operating targets. Rules versus discretion. Monetary policy rules.
38. Currency boards. The nature of currency boards: strengths and weaknesses of currency boards. The banking system under a currency board. The fiscal policy under a currency board. The Bulgarian currency board: introduction and specifics. Bulgaria's exit strategy.

39. Demand for money. Quantity theory of money. Keynes's liquidity preference theory. Contemporary developments in the Keynesian approach. Friedman's modern quantity/theory of money. Empirical evidence on the demand for money. Stability of money demand.
40. The IS-LM model. Monetary and fiscal policy in the IS-LM model. The IS-LM model. The IS-LM approach to aggregate output and interest rates. Factors that shift the IS and LM curves. Changes in equilibrium level of the interest rates and aggregate output. Effectiveness of monetary versus fiscal policy. Targeting money supply versus interest rates. IS-LM model and the aggregate demand curve.

Banking

41. Yield from fixed income securities. Bond's price determination. Bond's yield. Income changes over time. Expected and received income. Default. Spot and forward interest rates. Variable yield securities. Book value, parity value, market value. Dividends. Convertible bonds.
42. Bank's economy. Balance sheet of the bank. Basic balance positions. Bank's liquidity. Solvency of banks. Liabilities management. Assets management. Combined liquidity management. Interest rate sensitive liabilities and assets – 'gap' analysis. Profitability of banks.
43. Liabilities and liability operations. Liabilities' structure. Equity and special requirement (or capital adequacy. Basel Capital Accords. Interbank liability operations. Re-discounting. Off-balance sheet items.
44. Assets of the bank. Type of assets. Cash balances and claims from banks. Portfolio of securities and loans. Portfolio selection. Bank's own fixed assets. Bank loans. Credit procedure. Types of bank loans. Loan operations of the bank – overdraft, credit facilities, discount operations, syndicated loans, project financing. Special forms of credit – leasing, franchises, factoring, forfeiting.
45. Payment intermediation by the bank. Forms of payment. Bank transfers – types, handling procedures. Clearing and settlement. Organization of electronic payments with bank cards. Gross and net settlement payment systems. Securities settlement systems (SSSs). Payment systems oversight. Payment systems and SSSs in Bulgaria.

International Finance

46. International finance – subject, importance, key notions. Exchange rates - definition and types. Nominal, real, effective exchange rates. Spot and forward exchange rates. Exchange-rate determination. Exchange rate relationships with inflation and interest rates. Purchasing power parity (PPP). Interest rate parity.
47. Balance of payment (BoP). Definition, concept and principles. Structure of BoP. Structure and characteristics of the current account, capital account, financial account.

Financing of the BoP. Interpretation of the BoP structure and position. International investment position of the country.

48. Foreign exchange market – types and participants. Types of foreign exchange transactions — currency forwards, futures, options, swaps - and their characteristics. Exchange-rate policy of the Central bank. Foreign exchange interventions. Gross foreign exchange reserves. Management of gross foreign exchange.
49. Foreign exchange regime. Types of foreign exchange regimes. Currency Law – subject of regulation, transactions, payments and institutions and measures for foreign exchange control.
50. Exchange-rate systems – definition and classification. Fixed, floating and hybrid exchange-rate systems. Advantages and disadvantages of fixed and floating exchange-rate systems. Fixed exchange rate under a currency board arrangement (CBA). CBA vs. Central bank. Institutional and operational features of the Bulgarian CBA.
51. Theory of optimum currency area. Common currency and common central bank. Benefit and costs of a common currency. European Monetary Union. European Central Bank's monetary policy - monetary policy strategy and operational framework.

Insurance

52. The Nature of Insurance. Functions of Insurance. Insurance Risk. Insurable Interest.
53. Principles of Insurance. Forms of insurance. Types of Insurance. Types of Insurance Companies.
54. Characteristics of an Insurance Contract. The Concept of Indemnity. Deductible.
55. Liability Insurance. Automobile Insurance. Motor car Accident Insurance.

Bank Risk Management

56. Banking risk. Definition. Classifications of banking risks and their characteristics. Credit risk. Market risk. Liquidity risk. Operational risk. Other specific banking risks.
57. Banking regulation. Theories of banking regulation. Need for regulation. Capital base. Capital adequacy. Risk-based capital regulations. Legal provisions. Capital accords – Basel I, Basel II - Pillars 1, 2 3 and their features, advantages and disadvantages. Introduction of Basel III.
58. Risk management process. Aims, principles and functions. Stages of risk management process. Risk management organization. Risk control units in the banks and their functions.
59. Bank risk measurement and management. Standardized, foundation and advanced approaches. Value at Risk (VaR) approach. Stress tests. Back tests. Risk mitigation techniques – collateral, guarantees, credit derivatives.
60. Credit risk. Types of credit risk and approaches of credit risk assessment. Methods for credit risk management. Creditworthiness. Types of collateral. Collateral assessment indicators. Receivables and rights in pledge. Assignment of receivables. Pledge and mortgage. Insolvency of a borrower. Moratorium.

61. Market risk. Liquidity risk. Operational risk. Types of market risks – interest rate risk, commodity risk, exchange-rate risk. Regulation of market, Liquidity and operational risks. Capital requirements for these banking risk. Methods for measurement and management of market, liquidity and operational banking risks.

Stock Exchanges

62. Bulgarian Stock Exchange – XETRA trading platform: trading model, continuous trading, auctions, volatility interruptions.
63. Bulgarian Stock Exchange – order types: market order, limit orders, market to limit orders, iceberg and stop orders. Additional criteria for execution and validity of the orders. Quotation methods and deals execution.
64. Organization and functioning of the stock exchange market – establishment and history of the stock exchange market; primary and secondary market; market participants.
65. Stock market indexes – definition, types, calculation methodology, applications.
66. Derivatives – definition, types (forwards, futures, options, swaps); exchange traded and OTC derivatives; risk management using derivatives; advantages and criticism of derivatives market.
67. Options trading strategies – long and short positions on call and put options; bull call spread, bear put spread, straddle, strangle – market situation, break-even-points calculation, determination of the profit and loss zones.
68. Institutions on the Bulgarian capital market – regulative functions of Financial Supervision Commission for the non-banking financial sector; Central Depository functions and settlement mechanism; functions of Bulgarian National Bank as an agent for government bonds placement.
69. Financial ratios analysis – liquidity, debt, profitability and turnover ratios; price multipliers. Characteristics, calculation and application of financial ratios in public companies comparison.
70. Margin trade – cash and margin trade, margin types, buying on margin, price of a margin call, profit and loss from buying on margin, short sale, profit and loss from short sale.
71. Bulgarian Stock Exchange – history, types of listed securities (shares, bonds, rights, compensatory instruments, shares of Special Investment Purpose companies, shares and unit of collective investment schemes, market segment; market capitalization; market participant.

Social Security Finance

72. Social security system – basic principles and system structure, social security pillars, social risks and benefits.
73. Types of pension benefits-old-age pension, disability pension, survivor's benefits. Models for determining pension amount.

- 74. Supplementary mandatory pension insurance – structure of pension funds, insured persons, benefit payments, pension fund investments.
- 75. Health insurance - system structure, insured persons, contributions and benefit payments.

Tax control

- 76. Tax assessment procedure – tax audit, tax report, tax assessment act. Appeal against tax acts /administrative and court appeal/.
- 77. Revenue process – tax returns, collection and execution procedure, security and execution procedure, avoidance of double taxation procedure.
- 78. Corporate income taxes – taxable persons, types of taxes, taxable bases, tax returns and payment of taxes. Specifics of control on corporate income taxes.
- 79. Personal income taxes – taxable persons, types of taxes, taxable bases, tax returns and payment of taxes. Specifics of control on personal income taxes.
- 80. Value added tax (VAT) – taxable person, registration and deregistration, types of supplies, chargeable event, taxable base, tax reduction, VAT payment and VAT refund. Specifics of control on VAT.

Auditing

- 81. Objective and general principles of external audit engagements. Stages of an external audit.
- 82. Concept of materiality, true and fair presentation and reasonable assurance.
- 83. Concept of an audit risk affecting the audit of an entity and components of an audit risk.
- 84. Nature and purpose of test of control and substantive procedures and difference between them.
- 85. Types of opinions provided in the statutory audit.