

## **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 as 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 influence 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 the 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. Classification of leases as a finance lease and an operating lease. Minimal lease payments, guaranteed and unguaranteed residual values. Accounting for finance lease and operating lease by lessee and lessor. Recognition of interest expense or income under finance lease.
8. Accounting for Investment property. Applying the definition of Investment Property. Recognition and initial or subsequent measurement. Transfers to or from Investment Property classification. Disposal of Investment Property.
9. Accounting for Intangible Assets. Definition, recognition and initial 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 net realisable value. Perpetual and periodic inventory measurement. Cost formulas and expense recognition. The influence of inventory costing over the reported profits. Accounting for manufactured finished goods and their sale.
11. Accounting for Revenue. Definition and measurement of revenue. Revenue recognition for sale of goods, rendering of services, interest, royalties and dividends. Revenue recognition on long-term construction contracts. Accounting for Trade and Other Receivables. Accounting for uncollectible amounts and their presentation.
12. Accounting for current and long-term liabilities. Issuance of bonds and notes. Recognition and presentation of Provisions and presentation 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. Statement of comprehensive income (or income statement): contents, structure and purposes. Recording and presentation of operating expenses by nature or function. Recording and presentation of finance expenses and finance income. Accounting for current and deferred income taxes. Distribution of retained earnings. Retained losses recovery.
16. Statement of financial position (balance sheet) and 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. Statement of cash flows: contents, structure and purposes. Classification of cash flows. Cash and cash equivalents. Presentation of cash flows of interest and dividends. Direct and indirect method of preparing a Statement of cash flows.

### Management Accounting

18. Conception about the essence of income and costs and their classification for the purpose of the 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 CVP 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 debt.
24. Accounting for cash-emission activities. Accounting for operations of the 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 unutilized 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 transfers 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 of credit. Accounting for payments via non-covered letter of credit. Accounting for payments via cheque.
27. Accounting for bank expenses and revenues. Nature, characteristic and classifications 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 financial 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 Coefficients 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 investments 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. Determinants of money supply. Bank panics.
37. Monetary policy instruments. Conduct of monetary policy: goals and targets. Open market operations. Discount policy. Reserve requirements. 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 ISLM 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 requirements for 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.

### Public Finance

46. Public Goods. Public Goods Defined. Efficient Provision of Public Goods - Deriving the Efficiency Condition, Problems in Achieving Efficiency, the Free Rider Problem. The Privatization Debate -Public vs. Private Provision, Public vs. Private Production.
47. Externalities. The Nature of Externalities. Graphical Analysis. Private Responses to Externalities - Bargaining and the Coase Theorem, Mergers, Social Conversations. Public Responses to Externalities – Taxes, Subsidies, Creating a Market, Regulations, Evaluation. Positive Externalities.
48. Income Redistribution: Conceptual Issues. Rationales for Income Redistribution –Utilitarianism, The Maxmin Criterion, Pareto Efficient Income Redistribution, Nonindividualistic Views, Other Considerations.
49. Cost-Benefit Analysis. Present Value. Project Evaluation Methods. Discount Rate for Government Projects - Rates Based on Returns in the Private Sector, Social Discount Rate, Government Discounting in Practice. Valuing Public Benefits and Costs - Market Prices, Adjusted Market Prices, Consumer Surplus, Inferences from Economic Behavior, Valuing Intangibles. Uncertainty.
50. Tax Incidence: General Remarks - Only People Can Bear Taxes, Incidence Depends on How Prices Are Determined, Incidence Depends on the Disposition of Tax Revenues, Tax Progressiveness Can Be Measured in Several Ways. Partial Equilibrium Models - Unit Taxes on Commodities, Ad Valorem Taxes, Profits Taxes, Tax Incidence and Capitalization. General Equilibrium Models - The Harberger Model.
51. Taxation and Efficiency. Excess Burden Defined. Excess Burden Measurement with Demand Curves – Preexisting Distortions, The Excess Burden of a Subsidy, The Excess Burden of Income Taxation. Differential Taxation of Inputs.
52. Efficient and Equitable Taxation. Optimal Commodity Taxation – Neutral Taxation, The Ramsey Rule, Equity Considerations (Vertical Equity). Optimal User Fees. Optimal Income Taxation - Edgeworth's Model, Modern Studies. Other Criteria for Tax Design – Horizontal Equity, Tax Evasion.

### International Finance

53. 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.
54. Balance of payments (BoP). Definitions, concepts 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.
55. 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 reserves.

56. Foreign exchange regime. Types of foreign exchange regimes. Currency Law – subject of regulation, transactions, payments and institutions and measures for foreign exchange control.
57. Exchange-rate systems – definition and classifications. 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.
58. Theory of optimum currency area. Common currency and common central bank. Benefits and costs of a common currency. European Monetary Union. European Central Bank's monetary policy – monetary policy strategy and operational framework.

### Insurance

59. The Nature of Insurance. Functions of Insurance. Insurance Risk. Insurable Interest.
60. Principles of Insurance. Forms of Insurance. Types of Insurance. Types of Insurance Companies.
61. Characteristics of an Insurance Contract. The Concept of Indemnity. Deductible.
62. Liability Insurance. Automobile Insurance. Motor car Accident Insurance.

### Bank Risk Management

63. Banking risk. Definition. Classifications of banking risks and their characteristics. Credit risk. Market risk. Liquidity risk. Operational risk. Other specific banking risks.
64. Banking regulation. Theories for 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.
65. Risk management process. Aims, principles and functions. Stages of risk management process. Risk management organization. Risk control units in the banks and their functions.
66. 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.
67. Credit risk. Types of credit risk and approaches for 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.
68. 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

69. Bulgarian Stock Exchange – XETRA trading platform: trading model, continuous trading, auctions, volatility interruptions.
70. Bulgarian Stock Exchange – order types: market orders, limit orders, market to limit orders, iceberg and stop orders. Additional criteria for execution and validity of the orders. Quotation methods and deals execution.
71. Organization and functioning of the stock exchange market – establishment and history of the stock exchange markets; primary and secondary market; market participants.
72. Stock market indexes – definition, types, calculation methodology, applications.
73. Derivatives – definition, types (forwards, futures, options, swaps); exchange-traded and OTC derivatives; risk management using derivatives; advantages and criticism of derivatives markets.
74. 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.
75. 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.

76. Financial ratios analysis – liquidity, debt, profitability and turnover ratios; price multipliers. Characteristics, calculation and application of financial ratios in public companies comparison.
77. 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.
78. Bulgarian Stock Exchange – history, types of listed securities (shares, bonds, rights, compensatory instruments, shares of Special Investment Purpose companies, shares and units of collective investment schemes), market segments; market capitalization; market participants.

#### **Social Security Finance**

79. Social security system – basic principles and system structure, social security pillars, social risks and benefits.
80. Types of pension benefits – old-age pension, disability pension, survivor's benefits. Models for determining pension size.
81. Supplementary mandatory pension insurance – structure of pension funds, insured persons, benefit payments, pension fund investments.
82. Health insurance – system structure, insured persons, contributions and benefit payments.

#### **Tax control**

83. Tax assessment procedure – tax audit, tax report, tax assessment act. Appeal against tax acts /administrative and court appeal/.
84. Revenue process – tax returns, collection and execution procedure, security and execution procedure, avoidance of double taxation procedure.
85. Corporate income taxes – taxable persons, types of taxes, taxable bases, tax returns and payment of taxes. Specifics of control on corporate income taxes.
86. Personal income taxes – taxable persons, types of taxes, taxable bases, tax returns and payment of taxes. Specifics of control on personal income taxes.
87. Value added tax /VAT/– taxable person, registration and deregistration, types of supplies, chargeable event, taxable base, tax deduction, VAT payment and VAT refund. Specifics of control on VAT.

#### **Auditing**

88. Objective and general principles of external audit engagements. Stages of an external audit.
89. Concept of materiality, true and fair presentation and reasonable assurance.
90. Concept of an audit risk affecting the audit of an entity and components of an audit risk.
91. Nature and purpose of test of control and substantive procedures and difference between them.
92. Types of opinions provided in the statutory audit.