

FINAL TERM EXAMINATION

Spring 2010

FIN621 - Financial Statement Analysis

3rd paper

Time: 90 min

Marks: 69

Student Info	
StudentID:	
Center:	
ExamDate:	Tue, Aug 10, 2010

Question No: 1 (Marks: 1) - Please choose one

After recording the transactions in journal, posting is made to which of the following?

► Trial Balance

► Financial Statements

► Ledger

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Posting in ledger which mean transferring debits and credits from journal to ledger account This is also called ledgerising or classification

► After-closing Trial Balance

Question No: 2 (Marks: 1) - Please choose one

Which of the following is **TRUE** about the preparation of Trial Balance?

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- ▶ It is prepared at the beginning of the year
- ▶ It is prepared at the end of the fiscal year
- ▶ It is prepared at the beginning of the accounting period
- ▶ It is prepared at the end of the accounting period

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At the end of accounting period, a list of all ledger balances is prepared. This list is called trial Balance.

Question No: 3 (Marks: 1) - Please choose one

Prepaid Expense is a(n) _____ account and has a _____ normal balance.

- ▶ Revenue, credit
- ▶ Liability, credit
- ▶ Asset, debit
- ▶ Expense, debit

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Question No: 4 (Marks: 1) - Please choose one

One purpose of closing entries is to give zero balances to which of the following accounts?

- ▶ Asset and liability accounts
- ▶ Liability and capital accounts
- ▶ Revenue and expense accounts

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PURPOSE OF CLOSING ENTRIES

1. Updates the owner's capital account in the ledger by transferring net income (loss) and owner's drawings to owner's capital.
2. Prepares the temporary accounts (revenue, expense, drawings) for the next period's postings by reducing their balances to zero.

- ▶ Expense and capital accounts

Question No: 5 (Marks: 1) - Please choose one

Which of the following would be considered as cash flow from investing activities?

- ▶ Proceeds from issuance of long-term debt
- ▶ Expenditure for sale of plant and equipment

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Cash flow from investing activities includes cash receipts and payments that arise from Fixed and Long Term assets of the organization.

- ▶ Payments to suppliers
- ▶ Receipts from sale of goods or services

Question No: 6 (Marks: 1) - Please choose one

The cash flow from investing activities shows the cash effects of which of the following?

- ▶ Income statement items
- ▶ Long term assets items

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Cash Flow from Investing Activities

Cash flow from investing activities includes cash receipts and payments that arise from Fixed and Long Term assets of the organization.

- ▶ Long term liability & stockholder's equity

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- ▶ Long term liability and long term assets

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Question No: 7 (Marks: 1) - Please choose one

In a perpetual inventory system, which of the following is **NOT** part of the series of journal entries made when merchandise is sold on credit?

- ▶ Credit the Cost of Goods Sold account

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html)

[hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html](http://highered.mcgraw-hill.com/sites/0072996536/student_view0/chapter5/interactive_quiz_a.html)

MCQ # 17

- ▶ Credit the Sales account
- ▶ Credit the Merchandise Inventory account
- ▶ Debit the Accounts Receivable account

Question No: 8 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of accelerated depreciation method?

- ▶ Straight-line method

Accelerated-Depreciation method: In this method higher depreciation rate is charged in early years and lower rate in later years.

Straight Line Method

Under this method, a fixed amount is calculated by a formula. That fixed amount is charged every year irrespective of the written down value of the asset

- ▶ Sum-of-the-years digit method
- ▶ Double-declining balance method
- ▶ Modified Accelerated Cost Recovery System

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Question No: 9 (Marks: 1) - Please choose one

As stated in the audit report, or Report of Independent Accountants, the primary responsibility for a company's financial statements lies with which of the following?

- ▶ The owners of the company
- ▶ Independent financial analysts
- ▶ The auditors
- ▶ **The company's management**

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Audit of financial statements is independent of the business issuing these. Financial Statements preparation is Management's responsibility

Question No: 10 (Marks: 1) - Please choose one

Which of the following is **NOT** a typical classification of partnerships?

- ▶ General partnerships
- ▶ Limited partnerships
- ▶ Limited liability partnerships
- ▶ **Limited capital partnerships**

<http://smallbusiness.findlaw.com/business-structures/partnership/partnerships-types.html>

Question No: 11 (Marks: 1) - Please choose one

Capital stock is normally listed on which of the following financial statements of a business enterprise?

- ▶ Cash flow Statement
- ▶ Income Statement
- ▶ Statement of Retained Earnings
- ▶ **Balance Sheet**

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Capital Stock is a preferred stock that a company is authorize to issue, according to their corporate charter. Capital stock is normally listed on a company's balance sheet

Question No: 12 (Marks: 1) - Please choose one

The money that a company gets from potential investors in addition to the stated value of the stock is referred to which of the following?

- ▶ Paid in capital
- ▶ Additional paid in capital

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- ▶ Capital stock
- ▶ Contributed capital

Question No: 13 (Marks: 1) - Please choose one

Generally , investors want to buy shares at which of the following prices?

- ▶ At face value
- ▶ Below face value
- ▶ Above face value
- ▶ At market value

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Question No: 14 (Marks: 1) - Please choose one

By computing component percentages for several successive balance sheets, which of the following can **NOT** be found?

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- ▶ The increasing items
- ▶ The decreasing items
- ▶ The unchanged items

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- ▶ The future profitable items

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Question No: 15 (Marks: 1) - Please choose one

Which of the following are the ratios that are used to determine an entity's short-term debt paying ability?

- ▶ Times interest earned, inventory turnover, current ratio, and receivables turnover
- ▶ Times interest earned, acid-test ratio, current ratio, and inventory turnover
- ▶ Current ratio, acid-test ratio, receivables turnover, and inventory turnover

<http://www.scribd.com/doc/22806971/FS-Analysis>

QUIZ # 78

- ▶ Asset turnover, times interest earned, current ratio, and receivables turnover

Question No: 16 (Marks: 1) - Please choose one

If a company had a current ratio of 0.5, then which of the following statements regarding that company's working capital would be true?

- ▶ The company's working capital would be positive
- ▶ The company's working capital would be zero
- ▶ The company's working capital would be negative

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<http://www.principlesofaccounting.com/questions%20-%20%20multiple%20choice/chapter%204%20-%20multiple%20choice.htm#10>
MCQ # 10

- ▶ The company's working capital would be 2:1

Question No: 17 (Marks: 1) - Please choose one

A company has an inventory turnover ratio of 1.05 times, and cost of goods sold of Rs. 50,000. Calculate the average inventory of the company.

- ▶ Rs. 47, 500

- ▶ Rs. 47, 619

Inventory turnover ratio = CGS/ average inventory
= 50,000 / 1.05
= 47619

- ▶ Rs. 47, 500

- ▶ Rs. 47, 650

Question No: 18 (Marks: 1) - Please choose one

Which of the following is a possible reason for company's average debtor's collection period falling from one year to the next?

- ▶ An improvement in the state of the economy

http://wps.pearsoned.co.uk/ema_uk_he_dyson_accnas_7/64/16418/4203069.cw/index.htm
MCQ # 26

- ▶ A large credit customer facing severe cash shortages
- ▶ Economic recession

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- ▶ A shortening of the credit period offered by suppliers

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Question No: 19 (Marks: 1) - Please choose one

Which of the following ratio is calculated in order to know the liquidity of the accounts receivables?

- ▶ Accounts receivables turnover

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Liquidity of Receivables: It shows how quickly Accounts Receivables are collected i.e. converted into cash. It is determined by Receivable Turnover Ratio (RTO). It is number of times "Receivables" are converted into cash during the year.

- ▶ Accounts receivables turnover in days
- ▶ Operating cycle
- ▶ Activity ratios

Question No: 20 (Marks: 1) - Please choose one

A company can improve (lower) its debt-to-total asset ratio by doing which of the following?

- ▶ Borrow more
- ▶ Shift short-term to long-term debt
- ▶ Shift long-term to short-term debt
- ▶ Sell common stock

<http://www.vustudents.net>

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

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MCQ # 07

Question No: 21 (Marks: 1) - Please choose one

Nishat Corporation had net income of Rs. 100,000, paid income taxes of Rs. 30,000, and had interest expense of Rs. 8,000. What was Nishat's times interest earned ratio?

- ▶ 12.5
- ▶ 16.25
- ▶ 17.25

Times interest earned (TIE) ratio = EBIT/interest.
= 138000/8000
= 17.25

- ▶ 17.85

Question No: 22 (Marks: 1) - Please choose one

Most consumer-oriented stores and catalogue companies are an example of which of the following type of business?

- ▶ Manufacturing
- ▶ Service
- ▶ Merchandise

Most consumer-oriented stores and catalogue companies are distributors or retailers

- ▶ Both merchandise and manufacturing

Question No: 23 (Marks: 1) - Please choose one

All of the following statements are true regarding ratios that measure a company's ability to pay short-term and long-term debt **EXCEPT**:

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- ▶ The average debt ratio is between 0.57 and 0.67
- ▶ High times-interest-earned ratio indicates a company can pay interest expense easily
- ▶ Debt ratio of 60% indicates 60% of assets are financed with debt
- ▶ Debt ratio of 90% indicates lower financial risk than a debt ratio of 60%

http://wps.prenhall.com/ca_ph_horngren_accounting_7/60/15481/3963328.cw/content/in

MCQ # 10

Question No: 24 (Marks: 1) - Please choose one

Which of the following performance measures would be of most direct interest to shareholders?

- ▶ Return on net assets
- ▶ Gross profit margin
- ▶ Debt ratio
- ▶ Dividend yield

Question No: 25 (Marks: 1) - Please choose one

The total legal capital of the company consists of which of the following?

- ▶ Only common stocks issued
- ▶ Only preferred stocks issued
- ▶ Common stocks and preferred stocks

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Total legal capital = 12,000,000 (preferred) + 14,000,000 (common) = Rs.26, 000,000

- ▶ Common stocks and retained earnings

Question No: 26 (Marks: 1) - Please choose one

What will be the dividend requirement on outstanding preferred stocks, if the number of preferred shares is 50,000, number of common shares is 40,000 and the dividend per share is Rs. 10.

- ▶ Rs. 500,000

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$$50000 \times 10 = 500000$$

- ▶ Rs. 400,000
- ▶ Rs. 5,000
- ▶ Rs. 4,000

Question No: 27 (Marks: 1) - Please choose one

Which of the following options indicate how quickly accounts receivables are converted into cash?

- ▶ Accounts receivable turnover

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Liquidity of Receivables: It shows how quickly Accounts Receivables are collected i.e. converted into cash. It is determined by Receivable Turnover Ratio (RTO). It is number of times "Receivables" are converted into cash during the year.

- ▶ Days to collect accounts receivable
- ▶ Working capital
- ▶ Total assets turnover

Question No: 28 (Marks: 1) - Please choose one

Operating cycle belongs to which group of ratios?

- ▶ Leverage ratios
- ▶ Liquidity ratios
- ▶ Profitability ratios
- ▶ Activity ratios

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Question No: 29 (Marks: 1) - Please choose one

If current assets are Rs. 15.6 million, current liabilities Rs. 11.2 million and stocks Rs. 1.8 million, what is the acid test ratio?

- ▶ 1.39
- ▶ 1.23

Acid Test Ratio = $\frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}$

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$$= 15.6 - 1.8 / 11.2$$

$$= 1.23$$

- ▶ 1.65
- ▶ 0.89

Question No: 30 (Marks: 1) - Please choose one

What will be effect of purchase of inventory on open account on quick ratio of the company?

- ▶ Increase
- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

Question No: 31 (Marks: 1) - Please choose one

What will be the effect of conversion of a portion of bonds payable into common stock on the interest coverage ratio of the company?

- ▶ Increase

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- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

Question No: 32 (Marks: 1) - Please choose one

What will be the effect on the inventory turnover ratio of the company, if it changed from FIFO to LIFO during the period of inflation?

- ▶ Increase
- ▶ Decrease
- ▶ No effect
- ▶ Can not be found from the given information

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Question No: 33 (Marks: 1) - Please choose one

Assume that a company has current assets of Rs. 60,000, current liabilities of Rs. 35,000 and prepaid expenses of Rs. 5,000. Calculate the quick ratio of the company?

► 1.57

Quick ratio = $\frac{\text{current assets} - \text{inventory} - \text{prepaid expenses}}{\text{current liabilities}}$
= $\frac{60000 - 5000}{35000}$
= $\frac{55000}{35000}$
= 1.57

- 1.71
- 1.86
- 0.58

Question No: 34 (Marks: 1) - Please choose one

A complete set of financial statements for Hartman Company, at December 31, 1999, would include each of the following, **EXCEPT**:

- Balance sheet as of December 31, 1999
- Income statement for the year ended December 31, 1999
- Statement of projected cash flows for 2000
- Notes containing additional information that is useful in interpreting the financial statements

Question No: 35 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill for services already received will result in which of the following?

- An overstatement of assets
- An overstatement of liabilities
- An overstatement of equity

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MCQ # 04

- An understatement of assets

Question No: 36 (Marks: 1) - Please choose one

Which of the following is the proper journal entry to record Ransom Company's billing of clients for Rs. 500 of services rendered?

- Debit Cash 500; Credit Accounts Receivable 500
- Debit Accounts Receivable 500; Service Revenue 500

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MCQ # 05

- Debit Accounts Receivable 500; Credit Capital Stock 500
- Cash 500; Credit Service Revenue 500

Question No: 37 (Marks: 1) - Please choose one

Which of the following transaction have an effect on expense account?

- Purchase of office equipment on credit
- Payment on accounts payable
- Repayment of principle of bank loan
- Payment of wages

Question No: 38 (Marks: 1) - Please choose one

Failure to record the receipt of a utility bill, which have already been received for services, will result in which of the following?

- An understatement of assets

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- ▶ An overstatement of assets
- ▶ An overstatement of liabilities
- ▶ An overstatement of equity

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MCQ # 04

Question No: 39 (Marks: 1) - Please choose one

A business has purchased machinery on credit, what will be its journal entry?

- ▶ Cash - (Debit); Machinery - (Credit)
- ▶ Machinery - (Debit) ; Accounts payable - (Credit)

SIMPLE JOURNAL ENTRY

- ▶ Accounts payable - (Debit) ; Machinery - (Credit)
- ▶ Machinery - (Debit) ;Cash - (Credit)

Question No: 40 (Marks: 1) - Please choose one

Which of the following is **NOT** normally required for revenue to be recognized according to the revenue principle for accrual basis accounting?

- ▶ The price is fixed or determinable
- ▶ Services have been performed
- ▶ Cash that has already been collected
- ▶ Evidence of an arrangement for customer payment exists

Question No: 41 (Marks: 1) - Please choose one

Using the following information calculate Net Income: Sales Revenue Rs.200, 000, Loss on Sale of Equipment Rs.10, 000, Amortization Expense Rs.20, 000 and Cost of Goods Sold Rs.50, 000.

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► Rs. 170,000

► Rs. 120,000

Sales	200,000
Less cost of goods sold	(50,000)
Gross profit	1, 50,000
Less Loss on sale of equipment	(10,000)
Less amortization expense	(20,000)
Net income	1, 20,000

► Rs. 130,000

► Rs. 180,000

Question No: 42 (Marks: 1) - Please choose one

Which of the following statements is **CORRECT** regarding depreciation methods?

- Accumulated depreciation represents a fund being accumulated fro the replacement of assets
- The cost of a machine includes the cost of repairing damage to the machine during the installation process
- A company may use different depreciation methods in its financial statements and its income tax returns
- The use of an accelerated depreciation method causes an asset to wear out more quickly than does the straight line method

Question No: 43 (Marks: 1) - Please choose one

The actions taken by the management to make company appear as strong as possible in its financial statements is termed as which of the following?

- Window dressing
- Understanding
- Comprehensiveness
- Materiality

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Question No: 44 (Marks: 1) - Please choose one

Persons, who sign articles/memorandum of the company, contribute in the initial share capital of the company. They are called as:

► Subscribers

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Subscribers / Sponsors Of The Company

Subscribers / Sponsors are the persons who sign articles and memorandum of the company and contribute in the initial share capital of the company.

- Undertakers
- Investors
- Shareholders

Question No: 45 (Marks: 1) - Please choose one

ABC Company now wants to further raise its capital; it is going to offer its shares first to current shareholders. The issuance of further capital to Present Shareholders is called:

- Paid-in capital
- Preferred-stock Issue
- Right Issue

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Where a company wants to issue further capital (called raising the capital), shares are first offered to current shareholders. The issuance of further capital to Present Shareholders is called Right Issue

- Additional capital

Question No: 46 (Marks: 1) - Please choose one

Which one of the following ratios measures general liquidity of a company?

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- ▶ Quick ratio
- ▶ Current ratio

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It should be noted that current ratio measures “general liquidity”,

- ▶ Investments ratio
- ▶ Defensive interval ratio

Question No: 47 (Marks: 1) - Please choose one

Which of the following is **MORE** concerned with the short-term solvency?

- ▶ Short term Creditors

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Analysis by short-term creditors: Interest of short-term creditors is to watch the ability of business to meet its debts as these become due; i.e. Short-term solvency.

- ▶ Long term Creditors
- ▶ Short term Debtors
- ▶ Long term Debtors

Question No: 48 (Marks: 1) - Please choose one

The increasing Return on Sales (ROS) shows:

- ▶ Company is facing financial troubles
- ▶ Company is retaining more than 65% of its profit for operational efficiency
- ▶ Company is paying dividends consistently over the past years
- ▶ Company is growing by leaps and bounds

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Question No: 49 (Marks: 3)

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If a company uses Rs.20, 000 to buy merchandise for inventory. What do you think would be the effect on working capital? Give reason.

Question No: 50 (Marks: 3)

Ahmad Incorporation has Owner's Equity of amount Rs.75, 000 as an opening balance. During the period, three major transactions occurred:

Issuance of stock: Rs.22, 000

Dividend distribution: Rs.10, 000

Net Loss: Rs.6, 000.

Based on these transactions, what would be the Ahmad's ending balance of Owner's Equity?

Answer

Owner's Equity (beg)	75000
Add; Stocks Issued	22000
Less; Dividend distribution	10000
Less; Net Loss	<u>6000</u>
Owner's Equity (end)	<u>81000</u>

Question No: 51 (Marks: 5)

ABC Company is famous for its automobiles. The business has undergone the following changes in the month of March. Prepare the journal entries for the transactions.

1. Mar. 1 Owner deposited Rs. 50,000 cash in a bank account in the name of the business.
2. Mar. 5 Purchased land for Rs. 160,000, of which Rs. 40,000 was paid in cash. A short-term note payable was issued for the balance of Rs. 120,000
3. Mar. 6 An arrangement was made with the XYZ Company to provide parking privileges for its customers. XYZ Company agreed to pay Rs. 1,200 monthly, payable in advance. Cash was collected for the month of March.
4. Mar. 7 Arranges with Times Printing Company for a regular advertisement in the Times at a monthly cost of Rs. 390. Paid for advertisement during March by check, Rs. 390

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5. Mar. 15 Parking receipts for the first half of the month were Rs. 1,836, exclusive of the monthly fee from XYZ Company

Question No: 52 (Marks: 5)

Following data is taken from the ABC Corporation.

	1999 (Rs.)	2000 (Rs.)
Total assets	400,000	300,000
Total liabilities	300,000	180,000
Share capital (Rs. 10 par	100,000	90,000
Total debt	120,000	140,000

Requirement:

Calculate the following.

- a) Debt ratio (2.5)
- b) Debt to total asset ratio (2.5)

Question No: 53 (Marks: 5)

Assume that you wish to invest in the stocks of a high-tech corporation and that one of your investments goals is to receive dividend income from the stocks that you purchase. You begin your research by examining Microsoft, one of the world's most successful software corporations. You quickly discover that, as of 1997, Microsoft had never paid a dividend. Furthermore, the company's 1997 balance sheet reported holdings of nearly Rs. 9 billion in cash and highly liquid securities. With all of these liquid resources available, why do you suppose that Microsoft has never paid a cash dividend to its stockholders?

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