NATIONAL UNIVERSITY OF SINGAPORE
NUS Business School
Department of Accounting

ACC1701XA ACCOUNTING FOR DECISION MAKERS
Semester 1, 2025/26

MOCK FINAL EXAM #3 – Answer Solutions
(with additional explanations for some questions)

MCQ:

Question #: 1

Silver Spirit Corporation had the following transactions during the month of January 2023:

- Received $30,000 in cash from a customer for consulting services to be performed equally from January 2023 to February 2023.
- Sold merchandise worth $25,000 to a customer, of which $10,000 was received in cash and $15,000 was on credit.
- Incurred operating expenses of $12,000 for the month of January, of which 90% was paid in cash during the period.
- Paid $3,000 in cash on an insurance policy that will only start in April 2023.
- Incurred $2,200 in salaries to its employees for the month of January, which will only be paid in February 2023.

What is Silver Spirit's accrual-basis net income for the month of January?

✓A. $25,800
B. $22,800
C. $25,000
D. $26,200

	Accrual Basis
Consulating Rev	*15,000*
Sales Rev	*25,000*
Operating Exp	*(12,000)*
Insurance Exp	*-*
Salaries Exp	*(2,200)*
Net Income	***25,800***

Question #: 2

Silver Spirit Corporation had the following transactions during the month of January 2023:

- Received $30,000 in cash from a customer for consulting services to be performed equally from January 2023 to February 2023.
- Sold merchandise worth $25,000 to a customer, of which $10,000 was received in cash and $15,000 was on credit.
- Incurred operating expenses of $12,000 for the month of January, of which 90% was paid in cash during the period.
- Paid $3,000 in cash on an insurance policy that will only start in April 2023.
- Incurred $2,200 in salaries to its employees for the month of January, which will only be paid in February 2023.

What is Silver Spirit's cash-basis net income for the month of January?

✓A. $26,200
B. $22,800
C. $25,000
D. $25,800

	Cash Basis
Consulating Rev	*30,000*
Sales Rev	*10,000*
Operating Exp	*(10,800)*
Insurance Exp	*(3,000)*
Salaries Exp	*-*
Net Income	***26,200***

Question #: 3
Lavender Scent Co. received advance payment from a customer for services to be performed in the future, and had incorrectly recognized and recorded sales revenue. What is the effect of this error on the financial statements?

A. No effect on Assets; Liabilities will be overstated; Equity will be understated.
B. Assets will be overstated; No effect on Liabilities; Equity will be overstated.
C. Assets will be overstated; Liabilities will be overstated; Equity will be understated.
✓D. No effect on Assets; Liabilities will be understated; Equity will be overstated.

Lavender should have credited Unearned Revenue (liability), but instead it credited Sales Revenue (equity). Therefore, liability is understated and equity is overstated. Transaction did not affect any assets account.

Question #: 4
The following information is available for Peach Juice Bar Inc.

Sales Revenues	84,000
Unearned Commission Revenues	8,000
Operating Expenses	36,000
Depreciation Expense	5,000
Interest Payable	2,500
Retained Earnings (beginning of period)	50,000
Stock Dividends	5,000

After closing its books for the period, what will be the balance in the retained earnings account?

✓A. $88,000
B. $93,500
C. $93,000
D. $90,500

Net Income = 84k -36k – 5k = 43k
Ending RE = 50k + 43k – 5k = 88k

Question #: 5
Pink Haven Corporation's reported the following selected amounts on Jan 1, 2023:

	Debit	Credit
Gross Accounts Receivable	$60,000	
Allowance for Bad Debts		$3,000

Pink Haven reported the following for the year 2023:

- Sales revenue of $350,000. All sales during the year were on credit and Pink Haven collected $290,000 from its customers during the year.
- Pink Haven wrote off $10,000 worth of accounts receivable during the year.
- Pink Haven estimates that 6% of its outstanding accounts receivable at the end of the current year might become uncollectible.

What is Pink Haven's accounts receivable turnover ratio for 2023?

A. 4.12
B. 3.89
✓C. 4.36
D. 3.38

Ending Gross AR Balance *= Beg AR + Credit Sales – Collection – write off*
= 60,000 + 350,000 – 290,000 – 10,000
= 110,000
Ending Allowance Balance *= 6% x 110,000*
= 6,600
AR Turnover *= Net Sales / Average AR*
= 350k / [(60k -3k) + (110k – 6.6l)]/2
= 350k / 80.2k
=4.36

Question #: 6
Pink Haven Corporation's reported the following selected amounts on Jan 1, 2023:

	Debit	Credit
Gross Accounts Receivable	$60,000	
Allowance for Bad Debts		$3,000

Pink Haven reported the following for the year 2023:

- Sales revenue of $350,000. All sales during the year were on credit and Pink Haven collected $290,000 from its customers during the year.
- Pink Haven wrote off $10,000 worth of accounts receivable during the year.
- Pink Haven estimates that 6% of its outstanding accounts receivable at the end of the current year might become uncollectible.

How much should Pink Haven record as its bad debt expense for 2023?

A. $6,600
✓B. $13,600
C. $3,600
D. 9,600

Bad Debt Expense *= End Allowance – Beg Allowance + Write off*
= 6,600 – 3,000 + 10,000
= 13,600

Question #: 7
Tangerine Company manufactures and sells juicers. It estimates that warranty expense will be 3% of sales. The company's sales for the current period are $260,000. The current period's entry to record the warranty expense is:

A. Debit Warranty Expense $7,800; credit Sales $7,800.
✓B. Debit Warranty Expense $7,800; credit Warranty Provision $7,800.
C. Debit Warranty Provision $7,800; credit Warranty Expense $7,800.
D. Debit Warranty Provision $7,800; credit Cash $7,800.

Warranty expense = 3% x 260k = 7,800

Question #: 8
No disclosure is required for contingent liabilities that are:

A. Probable and non-estimable
✓B. Remote and estimable
C. Possible and non-estimable
D. Possible and estimable

Question #: 9
FlashDash Company reported the following income statement information 2022 and 2023:

	2022	**2023**
Sales	$410,000	$550,000
Cost of goods sold:		
Beginning inventory	$132,000	$144,000
Cost of purchases	273,000	302,000
Cost of goods available for sale	405,000	446,000
Ending inventory	144,000	152,000
Cost of goods sold	261,000	294,000
Gross profit	$149,000	$256,000

The beginning inventory balance for 2022 is correct. The ending inventory balance for 2023 is also correct. However, the ending inventory figure for 2022 was overstated by $20,000. Given this information, the correct gross profit figures for 2022 and 2023 would be:

A. $129,000 for 2022 and $256,000 for 2023.
B. $281,000 for 2022and $274,000 for 2023.
✓C. $129,000 for 2022and $276,000 for 2023.
D. $169,000 for 2022and $236,000 for 2023.

If ending inventory of $144,000 for Year 1 is overstated by $20,000, the correct amount of ending inventory is

$124,000. As a result, cost of goods sold for Year 1 should not be $261,000 as reported, but rather $281,000. Thus, ***gross profit for Year 1 should be $129,000*** *(Sales of $410,000 - Cost of Goods Sold of $281,000).*

The adjusted ending inventory balance for Year 1 ($124,000) becomes the beginning inventory balance for Year 2. Adding to that figure the $302,000 of purchases during the year, cost of goods available for sale is $426,000. COGS for Year 2 should then be 426,000 – $152,000 = $274,000. Accordingly, ***gross profit for Year 2 should be $276,000*** *(Sales of $550,000 - Cost of Goods Sold of $274,000).*

Question #: 10
Brown Earth Company purchased a soil mixing machine on January 1, 2022, for $57,600. The machine has an estimated useful life of 8 years and a salvage value of $15,040. Brown Earth uses the double declining-balance method of depreciation for all its assets. What will be the machine's carrying amount as of December 31, 2023?

A. $10,800
✓B. $32,400
C. $43,200
D. $14,400

Annual depreciation rate: 1/8 x 2 = 25%
Depreciation expense 2022: $57,600 x 25% = $14,400
Depreciation expense 2023: ($57,600 - $14,400) x 25% = $10,800
Carrying amount December 31, 2023: $57,600 - $14,400 - $10,800 = $32,400

Question #: 11
Green Pulp Company purchased an equipment for $19,200 on July 1, 2020. The equipment was expected to last for 5 years with a salvage value of $1,500. However, due to an accident Green Pulp had to scrap the equipment on Dec 31, 2022. Green Pulp uses the straight-line method of depreciation for all its assets. How much would Green Pulp recognize as the loss on disposal?

A. $8,580
B. $8,850
✓C. $10,350
D. $9,600

Annual depreciation expense: ($19,200-1,500) / 5 = $3,540
2020 depreciation: $3,540 x 6/12= 1,770
2021 & 2022 depreciation: $3,540 x 2 = 7,080
Carrying amount at disposal: $19,200 – 1,770 – 7,080 = $10,350
Since the equipment had to be scrapped at the end of 2022, Green Pulp recognizes the full carrying amount of the equipment at the time of disposal as a loss on disposal of PPE.

Question #: 12
Yellow Cheez Corporation used straight-line depreciation for a machine that cost $120,000, and had a residual value of $9,000. The machine had a 10-year useful life. After depreciating the asset for three complete years, Yellow Cheez spent $30,000 for a major overhaul of the machine which increased the total useful life of the asset to 13 years, and reduced the residual value to $2,000. Determine the revised amount of depreciation to be charged against the machine during each of the remaining years of its useful life:

A. $8,823
B. $8,470
C. $11,100
✓D. $11,470

Accumulated depreciation, end of year 3: [($120,000 - $9,000)/10 years] x 3 years = $33,300
Revised depreciation, years 4 through 13: ($120,000 +30,000 - $33,300 - $2,000)/(13 – 3 years) = $11,470

Question #: 13
Blue Globe Corporation had 100,000 shares of $5 par value common stock outstanding on January 1, 2022.
On March 10, 2022, the firm purchased 10,000 of its outstanding shares for $14 per share.
On August 22, 2022, it reissued 7,000 shares at $15 per share.
Given this information, the entry to record the reissuing of the remaining 3,000 shares on November 9, 2022, at $10 per share would probably include a

A. Credit to Treasury Stock of $30,000
✓B. Debit to Retained Earnings of $5,000
C. Debit to Paid-In Capital, Treasury Stock of $12,000
D. Debit to Loss on Sale of Stock of $5,000

March 10: *Repurchase 10,000 shares @ $14/share → Treasury stock = $140,000*
Aug 22: *Reissue 7,000 treasury shares @$15/share → Share premium = 7,000 x (15-14) = $7,000*
Nov 09: *Reissue 3,000 treasury shares @$10/share*

Dr. Cash ($10 x 3k)	*30,000*	
Dr Share Premium	*7,000*	
Dr RE (42k – 30k – 7k)	*5,000*	
Cr Treasury Stock ($14 x 3k)		*42,000*

Question #: 14
Purple Folks Inc. issued 10,000 shares of no-par common stock for $80 each. The journal entry to record this transaction would include a

A. Debit to Capital in Excess of Par of $800,000
✓B. Credit to Common Stock of $800,000
C. Credit to Cash of $800,000
D. Debit to Common Stock of $800,000

No par share issuance entry:	*Dr Cash (10k x $80)*	*800,000*	
	Cr Common stock		*800,000*

Question #: 15
White Cotton Inc. has the following shares outstanding:
- 50,000 shares of $10 par value, 3% cumulative preferred shares
- 10,000 shares of $8 par value, 7% non-cumulative preferred shares
- 40,000 shares of $1 par value ordinary shares.

White Cotton is in its second year of operations. In the first year, it paid total cash dividends of $10,000. In the second year, it paid total cash dividends of $30,000. Calculate the amount of dividends per share that the ordinary shareholders will receive in the second year.

A. No dividends for ordinary shareholders

B. Ordinary dividends of $0.10 per share

C. Ordinary dividends of $0.24 per share

✓D. Ordinary dividends of $0.11 per share

Dividends to cumulative preferred shareholders = 3% x (50,000 shares x $10) = $15,000
In Year 1, White Cotton paid dividends to preferred shareholders in the amount of $10,000. Remaining $5,000 is dividend in arrears.
In Year 2, White Cotton paid dividends in the following order:

1)	*Dividend in arrears*	*$5,000*
2)	*Current year dividends to cumulative pref shareholders*	*$15,000*
3)	*Current year dividends to non cumulative pref shareholders ($8 x 10k x 7%)*	*$5,600*
	Total Dividends to preferred shareholders	*$25,600*
4)	*Dividends to ordinary shareholders (30,000 – 25,600)*	*$4,400*

➔ ***Dividends per share to ordinary shareholders = 4,400 / 40,000 = $0.11***

Question #: 16
Below are selected data from the financial statements of Cream-Puffs Corp:

Total assets	$184,000
Total liabilities	84,000
Total equity	100,000
Net income	85,000
Tax expense	8,000
Interest expense	2,000

What is Cream-Puffs's times interest earned ratio?

A. 46.50 times

B. 42.00 times

C. 42.50 times

✓D. 47.50 times

Earnings before interest and taxes (EBIT) = 85,000 + 8,000 + 2,000
= 95,000

Times interest earned ratio = 95,000 / 2,000
= 47.5

Question #: 17
The Dupont analysis for two companies, Northern Co. and Southern Co. are shown below:

	Return on Equity	Return on Sales	Asset Turnover	Assets-to-Equity
Northern Co.	29.25%	5.00%	1.3	4.5
Southern Co.	25.50%	5.00%	1.7	3

Which of the following statements is the most correct?

A. Northern Co. is less profitable at generating net income from each dollar of sales.
B. Northern Co. is more efficient in using its assets to generate sales.
✓C. Northern Co. is able to use leverage to help it generate higher return on equity as compared to Southern Co.
D. Northern Co. is less able to generate net income from investment made by the shareholders as compared to Southern.

Question #: 18
Kelly is a financial analyst and she finds that the common size financial statement is a useful tool in performing her financial statement analysis of companies because it enables Kelly to:

A. Evaluate financial statements of different companies within a given industry of approximately the same value.
B. Determine which companies in the same industry are at approximately the same stage of development.
C. Ascertain the relative potential of companies of similar size in different industries.
✓D. Compare the mix of revenue, and expenses, and determine efficient use of resources within the same company over time or between different companies within a given industry without respect to relative size.

ESSAY QUESTIONS

Essay Question #1:

Answer ALL parts (part 1 and 2) of this essay problem. Round all intermediate calculations and final answers to 2 decimal places.

Casava Food Inc. is an online retailer startup selling cassava-based products. The company started operations on July 1, 2022 and is in its first year of operations. It has adopted June 30 as its fiscal year end and is on the periodic inventory system.

Below is the initial **unadjusted trial balance** of the company as at **June 30, 2023**:

	Unadjusted Balance	
Unadjusted Trial Balance as at June 30, 2023	**Debits**	**Credits**
Cash	98,900	
Accounts Receivable	15,000	
Prepaid Rent	2,000	
PPE	30,000	
Accounts Payable		12,000
Notes Payable		50,000
Common Stock - No Par		100,000
Retained earnings		0
Sales Revenue		120,000
Salaries Expense	7,500	
General Admin Expense	3,600	
Purchases (for merchandise inventory)	125,000	
Total	**282,000**	**282,000**

Casava Food performs adjustments on an annual basis. The following are additional information relating to its first year of operations, and has **not** been recorded.

(a) PPE (Property, plant &equipment) consists only of a delivery truck. The estimated useful life of the truck is 5 years, and total estimated usage over its lifetime is 50,000 kilometers. There is no residual value for the truck. Casava Food uses the units of production method for its depreciation of the truck. The truck was used for 7,500 kilometers in the first year of operations.

(b) Casava Food is on the periodic inventory system. On June 23, 2023, Casava Food purchased on credit a batch of 5,000 packets of cassava biscuits from a supplier at $2 per packet. The goods were shipped on FOB shipping point terms but was not received by Casava Food until July 12, 2023. Casava's part time accountant thought the shipment was purchased FOB destination and so did not record the purchase.

(c) Casava Food is on the periodic inventory system. A physical count of its ending inventory on hands at June 30, 2023 reveals inventory worth $53,000. Casava has not recorded COGS for the year.

(d) Casava Food uses the allowance method to account for bad debt. As at June 30, 2023, its aged list of unadjusted Accounts Receivable is as follows:

	Number of days unpaid		
	0 – 30	31 - 90	>90
Accounts Receivable ($)	$10,000	$4,000	$1,000
Estimated Uncollectible %	1%	5%	10%

(e) On May 1, 2023, Casava Food started operating a small pop-up kiosk at a shopping mall and paid advance rental for use of the kiosk from May 1 until August 31, 2023. Casava Food had recorded a prepaid on May 1st when it paid the 4 months advance rent on the kiosk

(f) On June 1, 2023, Casava Food took out a 6-month $50,000 notes from the bank, at an annual interest rate of 12%. Payments for both the principal and interest are due at maturity.

(g) Income is taxable at a corporate income tax rate of 10%. Payment for the income tax is due only in December 2023.

REQUIRED:

(1) Prepare all the necessary journal entries and closing entries related to inventory for each of the above events (a) to (g) for the fiscal year ending June 30, 2023.

Closing entries not related to inventory are not required. Descriptions and dates to journal entries are not required, however please reference all your journal entries according to the above event labels (a) to (g). **Show ALL your workings**. (18 marks)

(2) Prepare the Statement of Profit and Loss (Income Statement) for Casava Food Inc. for the year ended June 30, 2023. Workings are not required. (12 marks)

Answer Solution to Essay Question #1:

(1)

(a)	**Depreciation Expense**		**4,500.00**	
		Accumulated Depreciaiton		**4,500.00**

PPE cost	30,000.00
less salvage	-
lifetime usage in km	50,000.00
depreciaiton rate per km	0.60
year 1 miles	7,500.00
year 1 depreciaiton	4,500.00

(b)	**Purchases**		**10,000**	
		Accounts Payable		**10,000**

Inventory in transit	
units	5,000
cost per unit	$ 2.00
total inventory cost	10,000

(c)	**Inventory**		**135,000**	
		Purchases		**135,000**
	Cost of Goods Sold		**72,000**	
		Inventory		**72,000**

Beg Inventory		-
Purchases (unadjust bal)		125,000
purchases (from part b)		10,000
less ending:	physical count	(53,000)
	goods in transit	(10,000)
COGS		72,000

(d)	**Bad Debt Expense**	**400**	
	Allowance for Bad Debt		**400**

	Number of days unpaid			
Total ($)	0 - 30	31 - 90	>90	
$15,000	$10,000	$4,000	$1,000	
Estimated Uncollectible %	1%	5%	10%	***Total***
Estimated Uncollectible	$100	$200	$100	***400***

Allowance account:	
Beg Bal	0
End Bal	400
Bad Debt Expense	400

(e)	**Rental Expense**	**1,000**	
	Prepaid Rent		**1,000**

$2,000 / 4 * 2 = $1,000

(f)	**Interest Expense**	**500**	
	Interest Payable		**500**

Notes Payable	50,000
interest rate / period	12%
months in 2023	1
interest exp = 50k * 12% *1/12	$500.00

(g)	**Income Tax**	**3,050**	
	Income Tax Payable		**3,050**

Income before tax	30,500
income tax rate	10%
income tax	$ 3,050.00

(2)

Casava Food Inc.
Statement of Profit and Loss
For the Year Ended 30 June 2023

Sales Revenue	$120,000
Cost of Goods Sold	(72,000)
Gross Profit	**48,000**
Salaries Expense	(7,500)
General Admin Expense	(3,600)
Rent Expense	(1,000)
Depreciation Expense	(4,500)
Bad Debt Expense	(400)
Operating Income	**31,000**
Interest Expense	(500)
Income before Income Tax	**30,500**
Income Tax	(3,050)
Net Income	**27,450**

Workings – trial balance worksheet (not required)

	Unadjusted		*Journal Entries*							**Adjusted**	
Accounts Titles	**Debits**	**Credits**	*(a)*	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	**Debits**	**Credits**
Cash	98,900									98,900	
Accounts Receivable	15,000									15,000	
Allowance for Bad Debts		0				*(400)*					400
Merchandise Inventory	0				*63,000*					63,000	
Prepaid Rent	2,000						*(1,000)*			1,000	
PPE	30,000									30,000	
Accumulated Depreciation		0	*(4,500)*								4,500
Accounts Payable		12,000		*(10,000)*							22,000
Income Tax Payable		0							*(3,050)*		3,050
Interest Payable		0						*(500)*			500
Notes Payable		50,000									50,000
Common Stock - No Par		100,000									100,000
Retained earnings		0									-
Sales Revenue		120,000									120,000
Cost of Goods Sold	0				*72,000*					72,000	
Salaries Expense	7,500									7,500	
General Admin Expense	3,600									3,600	
Rent Expense	0						*1,000*			1,000	
Depreciation Expense	0		*4,500*							4,500	
Bad Debt Expense	0					*400*				400	
Interest Expense	0							*500*		500	
Income Tax	0								*3,050*	3,050	
Purchases	125,000			*10,000*	*(135,000)*					-	
Total	**282,000**	**282,000**	-	-	-	-	-		-	**300,450**	**300,450**

Essay Question #2:

Answer ALL parts (1 to 3) of this essay problem. Round all intermediate calculations and final answers to 2 decimal places.

The following information are given for Zykens Dance Corporation for the year 2022:

Depreciation expense	12,000
Net income	45,000
Payment of cash dividends	35,000
Purchase of equipment (settled 50% in cash)	40,000
Payment on retirement of long-term debt	20,000
Issuance of common stock (settled in cash)	20,000
Cash received in the sale of land (includes $5,000 gain)	28,000
Decrease in accounts receivable	4,800
Increase in inventory	3,200
Increase in accounts payable	2,000
Cash balance, January 1, 2022	102,000
Cash balance, December 31, 2022	?

REQUIRED:

(1) Prepare Zykens Dance Corporation's Statement of Cash Flows (using the indirect method) for the year ended December 31, 2022. Workings are not required. (22 marks)

(2) What pattern can you identify from the three sections of the Statement of Cash Flows for Zykens Dance Corporation? How would you interpret it? Is there a net positive or negative cash flow for the year ended 2022? (4 marks)

(3) Compute the following cash flow ratios for Zykens Dance Corporation for the year 2022: Show all your workings. (4 marks)

(i) Cash Flow to Net Income

(ii) Cash Flow Adequacy

Answer Solution to Essay Question #2:

(1)

Zykens Dance Corporation
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash Flows from Operating Activities:		
Net income	45,000	
Add (deduct) adjustments to cash basis:		
Depreciation	12,000	
Gain on sale of land	(5,000)	
Decrease in accounts receivable	4,800	
Increase in inventory	(3,200)	
Increase in accounts payable	2,000	
Net cash flows provided by operating activities		55,600
Cash Flows from Investing Activities:		
Cash receipts from sale of land	28,000	
Cash payments for purchase of equipment	(20,000)	
Net cash flows provided by investing activities		8,000
Cash Flows from Financing Activities:		
Cash receipts from issuance of common stock	20,000	
Cash payments for dividends	(35,000)	
Cash payments to retire long-term debt	(20,000)	
Net cash flows used in financing activities		(35,000)
Net increase in cash		28,600
Beginning Cash balance		102,000
Ending Cash balance		130,600

(2) Patterns from SCF:

- Positive cash flow from operations
- Positive cash flow from investing
- Negative cash flow from financing

Pattern indicates that the company is using cash from operations and from sale of its fixed assets to finance purchase of new fixed assets, pay down its long term debts and pay its shareholders through dividends. It had also raised some equity financing through issuance of common stock.

Overall, the company has a positive net cash flow.

(3) Cash Flow Adequacy Ratio

CFO	55,600
cash paid for capex	20,000
cash flow adequacy	2.78

CFO to NI Ratio

NI	45,000
CFO	55,600
CFO to NI ratio	1.24

End of Mock Final Exam #3