NATIONAL UNIVERSITY OF SINGAPORE
NUS Business School
Department of Accounting

ACC1701X ACCOUNTING FOR DECISION MAKERS

Semester 1, 2022/23

MOCK EXAM #1- Answer Solutions

(with additional explanations for some questions)

MCQ

1. Tom Corporation has total current assets equal to $80,000 and net current assets of $20,000. Jerry Company has the same amount of net current assets, but it has total current assets of $300,000. The company with the better current ratio:

   (A) is Jerry Company.
   (B) is Tom Corporation.
   (C) is the same for both companies.
   (D) cannot be determined from the information given.

   Current Assets - Current Liabilities = Net current assets. So using this formula you can figure out that Tom's CA is 80k, its CL is 60k, so current ratio is 1.3. Jerry CA is 300k, its CL is 280 so its current ratio is 1.07. So, Tom has the better ratio.

2. Assume that the balance in Retained Earnings at the end of year is $100,000, and that it decreased by 15% during the year. The balance in Retained Earnings at the beginning of the year was closest to?

   (A) $120,000.
   (B) $115,000.
   (C) $117,647.
   (D) $85,000.

   100k / (1-0.15) = 117,647

3. Temasek's financial year end is 30 April. The company depreciates vehicles using the straight line method. On 1 June 2016, Temasek bought a van for $42,000, with an estimated useful life of 5 years and zero residual value. If Temasek sells the van for $20,000 in 31 January 2019, what will be Temasek's gain or loss on disposal?

   (A) gain of $400.
   (B) loss of $22,400.
   (C) loss of $400.
   (D) gain of $22,000.

Annual depreciation = 42k/4 = 8,400. On 31 Jan 2019, 2 years and 8 months of depreciation has been taken so total accumulated depr is 22,400. Cost is 42k so net book value at point of sale is only $19,600. So, if you sell it for 20k cash, there will be a gain of $400 reported.

4. Ghibli Ltd had the following balances in its Balance Sheet as at 31 December 2017 and 2018:

	2017	2018
Notes Receivable	170,000	180,000
Common Stocks ($1 Par Value)	100,000	115,000
Additional Paid In Capital	40,000	50,000

How much will appear in the cash flow statement for the year ending 31 December 2018 under the heading of 'financing activities'?

(A) $35,000 inflow.
(B) $25,000 outflow.
(C) $25,000 inflow.
(D) $35,000 outflow.

The amount of issued stock increased from 100k to 115k. In addition, the additional paid in capital increased by 10k. Additional paid in capital refers to the difference between the par value of a stock and the price paid. Hence, in total, there was an inflow of 15k + 10k = 25k for issued stock.
Note that notes receivable is under "investing activities".

5. Worldcom had fraudulently capitalized its line rental expenses. How did this error affect its financial statements?

(A) Net Income overstated; Assets overstated.
(B) Net Income understated; Assets understated.
(C) Net Income overstated; Assets understated.
(D) Net Income understated; Assets overstated.

6. Inventory is valued using Weighted Average method. On 1 June 2019 there were 60 units in inventory valued at $12 each. On 8 June, 40 units were purchased for $15 each and a further 50 units were purchased for $18 each on 14 June. On 21 June, 80 units were sold for $20 each.

The value of closing inventory at 30 June 2019 was

(A) $1,036.
(B) $1,184.
(C) $620.
(D) $3,820.

7. Deloitte & Young has a cost of goods sold of $850 and a 30% gross profit margin. How much is the gross profit ($)?

   (A) $364.29
   (B) $1,214.29.
   (C) $1,105.
   (D) $2,833.33

8. Sales revenue are $110,000. Purchases are $80,000. Beginning balance of inventories are $12,000. Ending balance of inventories are $10,000. Inventory days using average inventories are:

   (A) 49 days.
   (B) 37 days.
   (C) 47 days.
   (D) 7.45 days.

   COGS = 82k (12+80-10). Avg inventory = 11k [(12+10)/2]. So 11k/82k x 365 = 48.9, which is closest to 49 dayS

9. Cash sales and sales on account were $190,000 and $650,000, respectively. During the year, Accounts Receivable increased by $10,000. Given that there had been no write-off, cash received from customers was:

   (A) $200,000.
   (B) $830,000.
   (C) $850,000.
   (D) $840,000.

   If 650k is on credit (which will increase your AR), and the increase in the AR account is 10k, that means the actual cash received on AR is 650-10k=640k. Try visualizing it using a T account. So that means total cash received as a result from sales is 640k+190k=830k

Use the following information to answer Q10 and Q11.

TYT Incorporated reports an increase in Accounts Payable of $8,700 and an increase in inventory of $51,000 for the current year. Accounts Payable relates solely to the purchase of merchandise. Sales on account were $529,000 and cost of goods sold was $374,000.

10. The total purchases of merchandise for the period were:

    (A) $323,000.
    (B) $425,000.
    (C) $374,000.

(D) $416,300.

Increase in inventory 51k + COGS 374k = 425k

11. The payments to suppliers for inventory during the period were:

(A) $425,000.
(B) $374,000.
(C) $416,300.
(D) $433,700.

Purchases 425k (from Q.10) – increase in AP 8.7k = 416.3k

12. A corporation has 10,000 stocks authorized, 8,000 stocks issued and 7,000 stocks outstanding. Which of the following statements is TRUE?

(A) There are 1,000 treasury stocks.
(B) 10,000 stocks have been sold.
(C) There are 7,000 treasury stocks.
(D) There are 1,000 stocks that had been cancelled.

13. A company should recognize a gain on treasury stocks in the Income Statement:

(A) when treasury stocks are sold for more than the par value of the stocks.
(B) when treasury stocks are purchased for less than the par value of the stocks.
(C) when treasury stocks are sold for less than the par value of the stocks.
(D) in none of the above situations. No gain is recognized on treasury stocks transactions.

Transactions relating to treasury stock will only affect your equity, it will never hit your income statement. When you repurchase, you record it as cost. when you reissue lower or higher than cost, you hit it either to your share premium-treasury account or retained earnings

14. Hisaishi Company declared a 2-for-1 stock split on its 200,000 stocks of $10 par value common stocks. As a result of this transaction:

(A) Total Stockholders' Equity increases by $2,000,000.
(B) Common Stocks increases to $4,000,000.
(C) Both options (A) and (B) are correct.
(D) None of the above options is correct.

15. Goggle Corporation issued 5,000 stocks of its $1 par value common stocks as a stock dividend when the stocks were trading at $10 per stock. At the time of the dividend, Goggle had 100,000 common stocks outstanding. These stocks were originally issued for $5 per stock. The entry to record the stock dividend includes a debit to Retained

Earnings for:

(A) $50,000.
(B) $5,000.
(C) $100,000.
(D) $25,000.

The number of stocks issued as dividend is 5,000, which is < 25% of the 100,000 outstanding stocks, it is therefore a small stock dividend. For small stock dividends issued at market value, the following JEs apply.

Dr Stock Dividends (5,000 stocks x $10)	*50,000*	
Cr Common Stock - Ordinary (5,000 stocks x $1)		*5,000*
Cr Share Premium - Ordinary (5,000 stocks x $9)		*45,000*

Dr Retained Earnings	*50,000*	
Cr Stock Dividends (5,000 stocks x $10)		*50,000*

16. Raffles Ltd has beginning inventory of $15,000, purchases of $25,000, and ending inventory of $10,000, sales of $75,000 and operating expenses of $30,000 for year 2018. An accounting clerk input the ending inventory as $12,000. Assuming that the income tax rate is at 40%, which of the following statement is true?

(A) Net income for 2019 will be $1,200 higher than 2018.
(B) Net income for 2019 will be $1,200 lower than 2018.
(C) Net income for 2018 was $9,000.
(D) Net income for 2019 will be correctly stated as there is no mis-statement at the end of 2019.

The correct Net Income earned in 2018 was $9,000.

COGS = Beginning Inventory - Ending Inventory + Purchases
= 15,000-10,000+25,000
= 30,000

Sales	*75,000*
Less: COGS	*30,000*
Gross Profit	*45,000*
Less: Operating Expense	*30,000*
Net Income before Tax	*15,000*
Less: Income Tax	*6,000*
Net Income	*9,000*

For this question, the answer can also be obtained through elimination of the wrong options. Options (A) and (B) are not correct as the information is insufficient to compare the net income of 2019 against 2018. As for option (D), it is also incorrect because the net income for 2019 would be mis-stated due to the clerk entering the ending inventory of 2018 erroneously. The ending inventory of 2018 would be carried forward to be the beginning inventory of 2019, resulting in an overstated COGS in

2019. This leaves us with only option (C). The correct Net Income earned in 2018 was $9,000.

17. If Crazy Eddie decided to overstate its ending inventory in 1987 and 1988 by $2 million and $4 million respectively, then:

(A) Cost of goods sold in 1988 will be understated by $4 million and stockholders' equity overstated by $4 million.
(B) Gross profit will be overstated by $2 million in 1988 and understated by $4 million in 1989.
(C) Assets and stockholders' equity will both be overstated by $2 million in 1988.
(D) Gross profit will be overstated by $2 million in 1987 and cost of goods sold understated by $4 million in 1989.

If inventory is overstated in 1987 by $2m, that means that you are holding more inventory than you have, which means on your books you did not record them as sold so your COGS will be understated. If your COGS is understated that means that your Gross profit will be overstated in 1987. This overstatement of inventory will carry on to the next period which means that in 1988 your beginning inventory is overstated by $2m so if at the end of 1988 your ending inventory is overstated by 4 million, that means you did not record $2m of COGS in the year which should have been recorded, so your gross profit in 1988 is overstated by $2million.
Now this overstatement in inventory continues to carry on into 1989, which means your beginning balance in 1989 is overstated. Since the question did not mention any overstatement or understatement in 1989 for ending inventory, we can assume that ending inventory amount in 1989 is correct. So that means in 1989 the company had taken $4m in COGS (which technically belongs to 1987 and 1988) so that means the gross profit for 1989 is understated by $4m!

18. Hayao Co. purchases inventory from overseas and incurs the following costs: the cost of the merchandise is $50,000 with the credit terms of 2/10, n/30; FOB shipping point freight charges are $1,500; insurance during transit is $500; and import duties are $1,000. Hayao paid within the discount period and incurred additional costs of $1,200 for advertising, $5,000 for sales commissions and $500 for delivery of goods to the customers. Compute the cost that should be assigned to the inventory.

(A) $52,000.
(B) $58,700.
(C) $57,200.
(D) $50,500.

ESSAY QUESTION 1

Mcgraw Ltd is in the business of selling accounting textbooks to tertiary students and have several outlets located in the local university campus. The company performs adjustments on an annual basis and adopts a perpetual inventory system. All equipment and furniture assets were purchased since the commencement of the business and were recorded at historical costs. No additional non-current assets had been purchased ever since.

The following additional information was obtained after preparing the initial unadjusted trial balance shown below, and has not been recorded.

a) Equipment consists mainly of the cash registers and the barcode scanners. These are estimated to have a useful life of 5 years with a residual value of $15,000. Mcgraw Ltd has been using the double declining balance method to estimate the depreciation of Equipment.

b) On 30 December, the cashier accidentally dropped one of the barcode scanners and broke the device. It was repaired at a cost of $100 that was paid in cash on the same day. The repair was to restore the device to its original working condition.

c) Furniture consists of book shelves and other shop displays. These were estimated to have a useful life of 10 years with a $20,000 residual value. The company has been using the straight-line method to estimate the depreciation of Furniture. At the beginning of 2018, Mcgraw Ltd revised the residual value estimate to $5,000 and the remaining useful life to be 5 years.

d) Mcgraw Ltd purchased a batch of 100 copies of Financial Accounting books of $5,000 on the terms of n/60, on 29 December. The goods were shipped FOB destination and were received by Mcgraw on 2 January of 2019. The shipment was a rush order that was estimated to arrive by 31 December 2018. As the newly employed storekeeper was unsure of the shipping terminologies, he had decided to manually enter the goods into the system based on the purchase order document. As a result, this purchase had been included as part of the ending inventory balance of $90,000 although it had failed to arrive on 31 December.

e) Mcgraw's ending inventory balance of $90,000 did not include a batch of 160 copies of the Financial Accounting books costing $8,000 that were shipped to Cavendish Co. on 27 December with shipping terms of FOB destination and were still in transit at year-end. The sales revenue of $12,000 for this shipment on the terms of n/30 had already been recognised together with the Cost Of Goods Sold on 27 December.

f) Details of the ending inventory balance are as follows:

Inventory items:	Cost per unit	NRV per unit	Quantity (units)	Total Costs ($)
Financial Accounting	$50	$50	340	17,000
Managerial Accounting	$70	$90	100	7,000
Intro to Accounting	$30	$50	150	4,500
Intermediate Accounting	$90	$90	350	31,500
Corporate Reporting	$120	$200	125	15,000
Ethics in Accounting	$75	$35	200	15,000
TOTAL				90,000

g) The bank reconciliation at 31 December revealed the following information:

Deposits in transit: $1,000
Outstanding cheque: $200
NSF cheque: $2,000 cheque received from a customer who had owed the debt for more than 90 days

h) Mcgraw Ltd estimates its bad debts using the aging of accounts receivable method. As at the end of 31 December 2018, Mcgraw's aged list of unadjusted Accounts Receivable is as follows.

	Number of days unpaid			
Total ($)	0 - 30	31 - 60	61 – 90	>90
20,000	12,000	3,000	3,000	2,000
Estimated Uncollectible %	1%	10%	20%	30%

i) Income is taxable at a corporate income tax rate of 17%.

j) On 31 December 2018, Mcgraw Ltd declared a total dividend of $10,000 for the year ending in 2018. Dividends were in arrears for cumulative preferred stock since year 2017.

k) Mcgraw Ltd is currently facing a $50,000 lawsuit from a competitor company, charging Mcgraw Ltd for receiving hidden discounts and special advertising from book publishers, which put the rival companies at an unfair disadvantage. Mcgraw Ltd's defense lawyer has advised that the likelihood of any compensation due to this case, is remote.

The following Trial Balance was extracted from the books of Mcgraw Ltd for the year ending 31 December 2018.

UNADJUSTED TRIAL BALANCE AS AT 31 DECEMBER 2018

	Debit	**Credit**
Cash	150,000	
Accounts Receivables	20,000	
Allowance for Doubtful Debts		2,000
Merchandise Inventory	90,000	
Equipment	50,000	
Accumulated Depreciation - Equipment		32,000
Furniture	120,000	
Accumulated Depreciation – Furniture		20,000
Accounts Payables		40,000
Tax Payable		0
Dividends Payable - Preferred		0
Dividends Payable - Common		0
Preferred Stock, 5% cumulative, $10 par value		30,000
Common Stocks (No Par)		100,000
Retained Earnings		77,500
Dividends	0	
Sales		500,000
Cost of Goods Sold	250,000	
Salaries Expense	55,000	
Bad Debt Expense	0	
Rental Expense	36,000	
Repair & Maintenance expense	500	
Depreciation expense	0	
Utilities Expense	12,000	
Tax Expense	0	
Insurance Expense	18,000	
TOTAL	801,500	801,500

Required:

1) **Prepare all necessary journal entries for each of the above events (narrations to journal entries are not required) for the financial year ending in December 31, 2018. Closing entries are not required.**

2) **Prepare a classified Balance Sheet as at December 31, 2018**

Answer Solution for Part 1:

a.	31 Dec	Depreciation expense *($35,000 - $32,000)*	3,000	
		Accumulated Depreciation - Equipment		3,000
b.	30 Dec	Repair & Maintenance expense	100	
		Cash		100
c.	31 Dec	Depreciation expense *[($100,000 - $5,000)/5]*	19,000	
		Accumulated Depreciation - Furniture		19,000
d.	29 Dec	Accounts Payable	5,000	
		Merchandise Inventory		5,000
e.	27 Dec	Sales	12,000	
		Accounts Receivables		12,000
		Merchandise Inventory	8,000	
		COGS		8,000
f.	31 Dec	COGS / Impairment Loss	8,000	
		Allowance for Inventory Impairment		8,000
g.	31 Dec	Accounts Receivables	2,000	
		Cash		2,000
h.	31 Dec	Bad Debt Expense	100	
		Allowance for Doubtful Debts		100
i.	31 Dec	Tax Expense	16,031	
		Tax Payable		16,031
j.	31 Dec	Dividends	10,000	
		Dividends Payable - Preferred		3,000
		Dividends Payable - Common		7,000
k.	31 Dec	No journal entry needed for lawsuit.		

Some additional explanations for Part 1:

(a) You cannot depreciate the equipment below its residual value of 15k in the last year of the equipment's life. So, we can only take $3k depreciation for the equipment to eventually have a NBV of $35k ($50k - 15k residual).

(b) ($120 furniture value - $20k accumulated depr) - $5k new residual value) / 5 years new life = 19k

(e) Items still belong to the seller even though they are in transit, however McGraw already recorded it as a sales revenue, so we have to reverse it out because the sales has not been completed until the items reach the buyer

(f) This entry is NOT related to part e, this is a write down of the Ethics in Accounting inventory under the lower of cost or market principle. The NRV of the product is less than the cost, so we have to record the ending inventory for Ethics in Accounting using the NRV amount, which gives rise to an inventory write-down of $8k which we have to record.

(g) Deposit in transit and outstanding checks are adjustment on the bank side, so they do not need an adjusting journal entry to adjust the book balance. So only the NSF check required an adjusting journal entry.

(h) The aging receivables table given in the question is ***unadjusted.*** *That means prior to calculating your target allowance balance from the aging, you need to incorporate the adjustments to any AR account. Specifically, journal entries from part (e) where AR was credited for 12k, and part (g) where AR was debited for $2k.*

After taking these into consideration, the ***adjusted*** *aging analysis would be:*

	Number of days unpaid			
Total ($)	*0 - 30*	*31 - 60*	*61 – 90*	*>90*
	12,000 – (e)12k = 0	*3,000*	*3,000*	***2,000 + (g) 2k = 4k***
Estimated Uncollectible %	*1%*	*10%*	*20%*	*30%*
Estimated Uncollectible	***$0***	***$300***	***$600***	***$1200***

So that means the target balance of the allowance account at the end of the year should be $300+$600+1200=$2100. Per the unadjusted TB, the unadjusted balance of the allowance account is a normal credit balance of $2000, so that means to get the allowance account to show an adjusted ending balance of $2100, we need to credit the allowance for only $100. Thus, the bad debt expense for the period is $100.

(i) Income Tax expense is derived as follows:

SALES	*488,000*
COGS	*250,000*
SALARIES EXP	*55,000*
BAD DEBT EXP	*100*

RENTAL EXP	*36,000*
REPAIR & MAINTENANCE EXP	*600*
DEPRECIATION EXP	*22,000*
UTILITIES EXP	*12,000*
INSURANCE EXP	*18,000*
NET INCOME BEFORE TAX	*94,300*
INCOME TAX	*-16,031*
NET INCOME AFTER TAX	*78,269*

(j) Since dividends were in arrears for the cumulative preferred stock since 2017 (1 year of preferred dividends is 5% of 30,000 = $1,500) 2018's preferred dividends is $1,500 (also 5% of 30,000). 10k declared so 3k (dividends in arrears + current) for preferred and (10k - 3k = 7k) to remaining ordinary/common

Answer Solution for Part 2:

Mcgraw Ltd
Balance Sheet
December 31, 2018

Current Assets		
Cash		$ 147,900
Accounts Receivables	10,000	
Less Allowance for Doubtful Debts	(2,100)	
Account Receivables, Net		7,900
Merchandise Inventories		85,000
Total Current Assets		240,800
Non Current Assets		
Equipment	50,000	
Accumulated Depreciation - Equipment	(35,000)	
Equipment, Net		15,000
Furniture	120,000	
Accumulated Depreciation - Furniture	(39,000)	
Furniture, Net		81,000
Total Assets		**336,800**
Current Liabilities		
Accounts Payables		35,000
Tax Payable		16,031
Dividends Payable - Preferred		3,000
Dividends Payable - Common		7,000
Total Current Liabilities		61,031
Preferred Stock, 5% cumulative, $10 par value		30,000
Common Stocks (No Par)		100,000
Retained Earnings *		145,769
Total Shareholders' Equity		275,769
Total Liabilities & Shareholders' Equity		**336,800**

**To get the ending RE, you have to create an adjusted trial balance from all your adjusting entries to get the updated balances of your accounts, and then you need to close out your temporary accounts to retained earnings.*