

CITY UNIVERSITY OF HONG KONG

Course code and title : CB2100 Introduction to Financial Accounting

Session : Semester A, 2017/2018

Time allowed : Three hours

This paper has **EIGHT** pages (including this cover page).

Instructions to candidates:

1. The examination consists of two parts.
 2. Part A contains 20 multiple choice questions with 20 marks. Each question accounts for 1 marks.
 3. Part B contains 6 short questions with 80 marks.
 4. You must do all questions.
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*This is a **closed-book** examination.*

Candidates are allowed to use the following materials/aids:

Non-programmable calculators

*Materials/aids other than those stated above are not permitted.
Candidates will be subject to disciplinary action if any unauthorised materials or aids are found on them.*

Not to be taken away

Part A: Multiple-Choice Questions (20 marks)

1. In the annual report, where would a financial statement reader find out that whether the company's financial statements give a fair depiction of its financial position and operating results?
 - A. Income Statement
 - B. the statement of stockholder's equity
 - C. Balance sheet
 - D. Auditor's report
2. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
 - A. Going concern assumption
 - B. Economic entity assumption
 - C. Periodicity assumption
 - D. Monetary unit assumption
3. An entity shall select and apply its accounting policies consistently for similar transactions unless valid reasons are provided. This is used to ensure the characteristic of
 - A. Verifiability
 - B. Timeliness
 - C. Comparability
 - D. Understandability
4. Night Cinema has the regulation that the employee selling movie tickets are not also account for cash. What kind of control activity does Night Cinema use?
 - A. Physical control
 - B. Separation of duties
 - C. E-commerce control
 - D. Proper authorization
5. Apple Limited offers terms of 1/10, n/30 sales discount to its customers. On 4 April, Apple Limited provides \$1,000 service to Lucy in credit. Lucy paid on 25 April. Which of the following accounting treatment is **NOT** right?
 - A. 4 April: a debit on accounts receivable.
 - B. 4 April: a credit on sales.
 - C. 25 April: a debit on sales discount.
 - D. 25 April: a debit on cash
6. Which of the following computations would be used to compute Net Revenue?
 - A. Total Revenue + Accounts Receivable – Sales Discounts – Sales Allowances
 - B. Total Revenue – Trade Discounts – Sales Allowances – Sales Discounts
 - C. Total Revenue – Sales Discounts – Sales Allowances
 - D. Total Revenue – Trade Discounts – Sales Allowances

7. During the year, the cost of inventories continually rise. Which cost method will result in the lowest cost of goods sold?
- A. Specific identification
 - B. First-in, first-out
 - C. Last-in, first-out
 - D. Weighted-average cost

Read the following information, answer question 8-9.

A company has the following inventory transactions:

Jan. 1	Beginning inventory	300 units @ \$24 each
Jan. 11	Purchase	200 units @ \$28 each
Jan. 20	Purchase	300 units @ \$20 each

8. What would be the ending balance of inventory as at 31 January under the FIFO method if 600 units were sold in January?
- A. \$4,800
 - B. \$4,000
 - C. \$14,000
 - D. \$14,800
9. What would be the cost of goods sold under the weighted-average method if 550 units were sold in January?
- A. \$5,875
 - B. \$5,000
 - C. \$12,925
 - D. \$13,800
10. Tony, the accountant of ABC Limited, founds an error that the ending balance of inventory last year was overstated during the year. Which of the following statement is right?
- A. The operating profit last year was overstated.
 - B. This error made no influence on current retained profit.
 - C. The cost of goods sold last year was overstated.
 - D. Tony needs do nothing because inventory errors will be adjusted by itself automatically.
11. A company makes a basket purchase of land, building, and equipment with estimated fair values of \$70,000, \$150,000, and \$30,000, respectively. The purchase price is \$210,000. How much should be recorded to the Building account?
- A. \$126,000
 - B. \$70,000
 - C. \$58,800
 - D. \$25,200

12. A company purchased a POS cash register on January 1 for \$5,400. This register has a useful life of 10 years and a salvage value of \$400. What would be the depreciation expense for the second-year of its useful life using the double-declining-balance method?
- A. \$ 500.
 - B. \$ 800.
 - C. \$ 864.
 - D. \$1,000.
13. Which of the following intangible assets is not subject to amortisation?
- A. Patents
 - B. Goodwill
 - C. Copyright
 - D. Franchises
14. A company accepts a note receivable of \$500,000 on September 1, 2018, that matures in 12 months and has stated interest of 6%. What amount of interest revenue will the company record in 2018 and 2019?
- A. 2018 = \$10,000; 2019 = \$20,000
 - B. 2018 = \$12,500; 2019 = \$17,500
 - C. 2018 = \$15,000; 2019 = \$15,000
 - D. 2018 = \$0; 2019 = \$30,000
15. In some states, companies are required to collect sales tax when selling goods or services and then remitting those back to the state or local government. The advance collection of sales tax from the customer creates an increase in
- A. Revenue
 - B. Asset
 - C. Expense
 - D. Retained Earnings
16. Under the new legislation, an enterprise is required to fit smoke filters to its factories by 30 June 2018. However, the enterprise has not yet fitted the smoke filters at the end of the fiscal year 2018, which is December 31, 2018. The enterprise is probable to be subject to a \$100,000 fine according to the legislation. Which of the following statements is **NOT** true?
- A. The \$100,000 fine is likely to happen.
 - B. The enterprise should record a \$100,000 liability at the year end.
 - C. The enterprise should record a \$100,000 loss at the year end.
 - D. Instead of recording, the enterprise just needs to disclose it.
17. Which condition needs accountants to prepare a journal entry?
- A. The retirement of its CFO
 - B. Share split or consolidation
 - C. Repurchase of treasury stock.
 - D. Record date of a cash dividend.

18. Firm A has simple capital structure. It has authorised 16,000 shares available on the stock market. 1,000 shares have not been sold at the end of 2017. Firm A holds 3,000 treasury stocks in consideration of possible stock dividend. The net profit for 2017 is \$60,000. No preference share was issued up to now. The EPS for 2017 of Firm A is

- A. \$3.75 per share
- B. \$4 per share
- C. \$4.61 per share
- D. \$5 per share

19. Vertical analysis examines trends:

- A. Between companies in the same year
- B. Between company and the industry average
- C. For a single company over time
- D. For the change of balance sheet amounts

20. One of the measures of profitability is the

- A. current ratio
- B. debt to total assets ratio
- C. return on assets ratio
- D. working capital

Part B (80 marks)

21. Clear Limited offers credit sales to its customers. Following is transactions related to accounts receivable.

May 15, 2017	Provide services to customer on account for \$35,000.
September 20, 2017	Receive \$10,000 from customer on account.
December 31, 2017	Estimate that 20% of the accounts receivable at the end of year will not be received.
January 12, 2018	Provide services to customer on account for \$60,000.
March 20, 2018	Receive \$17,000 from customers for service provided in 2017.
April 26, 2018	Write off the remaining amounts owed from services provided in 2017.
October 20, 2018	Receive \$35,000 from customers for services provided in 2018.
December 31, 2018	Estimate that 20% of the accounts receivable at the end of year will not be received.

Required:

(a) Record transactions for each date. (10 marks)

(b) Calculate the net realizable value of accounts receivable at the end of 2017 and 2018. (2 marks)

22. Dux Store is a bike retailing store. Following is related information for Dux Store's inventory account in March 2017.

March 1	Beginning Inventory	68 units @ \$15.00 per unit
March 5	Purchase	140 units @ \$15.50 per unit
March 9	Sale	94 units @ \$19.00 per unit
March 11	Purchase	40 units @ \$16.00 per unit
March 16	Purchase	78 units @ \$16.50 per unit
March 20	Sale	116 units @ \$19.50 per unit
March 29	Sale	62 units @ \$21.00 per unit

Required:

(a) Calculate the ending balance of inventory account and cost of goods sold for March. Prepare appropriate journal entries for Dux Store in March under FIFO periodic system. (10 marks)

(b) On 31 March 2017. Dux Store revalues its inventories according to the market price. Complete following table and prepare an appropriate year-end adjusting journal entry to record the adjustment on 31 March 2017. (5 marks)

Inventory Items	Quantity	Cost per unit	Total cost	Net Realisable Value per unit	Total NRV	Lower of cost and NRV
Bike A	15			\$16.5		
Bike B	12			\$15		
Bike C	13			\$20		
Bike D	14			\$16		
Total						

(c) In March, Dux Store incurs a \$200 of selling and administrative expenses, a \$100 of interest expense, \$100 of tax expense. Prepare a multiple-step income statement for Dux Store for the month ended March 31, 2017. (5 marks)

23. Metagroboize Ltd. purchases an equipment at cost of \$100,000 on January 1, 2017. The useful age of this equipment is estimated to be 5 years. The residual value is estimated to be \$5,000.

Required:

(a) Metagroboize Ltd. uses double-declining-balance depreciation method. Prepare the depreciation schedule for this particular equipment. (8 marks)

(b) On the end of 2018, Metagroboize Ltd. changes its depreciation method on this particular equipment to straight-line method with a 6-year service life and no residual value. Calculate the new depreciation expense per year. Re-prepare the depreciation schedule for this particular equipment from 2019. (8 marks)

(c) On December 31, 2020. Metagroboize Ltd. sales this equipment for \$21,000. Prepare the appropriate journal entry. (4 marks)

24. Riseup Corporation borrowed \$300,000 on April 30, 2018 from Hang Sang Bank. Riseup signs a one-year, 12% promissory note. Interest is paid at maturity. Riseup has a financial year-end on December 31.

Required:

- (a) Record the issuance of the note by Riseup Corporation. (2 marks)
- (b) Record the appropriate adjustment for the note by Riseup on December 31, 2018. (3 marks)
- (c) Record the payment of the note by Riseup at maturity. (3 marks)

25. Parnell Company incurs the following transactions for the year ended December 31, 2017.

January 1	Issue 10,000 shares of no-par common stock at \$20 per share.
March 31	Issue 20,000 shares of \$1 par value common stock at \$30 per share.
April 11	Issue 5,000 shares of \$30 par value preferred stock.
June 30	Purchase back 3,000 shares of treasury stock at \$23 per share.
September 12	Issue 1,500 shares of treasury stock at \$25 per share
October 11	Issue 1,000 shares of treasury stock back to market at \$20 per share.
December 10	Declare a \$0.25 per share dividend on its outstanding shares.
December 31	Pay dividends to stockholders.

Prepare appropriate journal entries to record these transactions. (10 marks)

26. The following are the income statement for 2016 and a December 31, 2016 balance sheet for Bush Limited.

Income Statement	
Sales (net)	\$304,400
Cost of goods sold	<u>183,600</u>
Gross profit	\$120,800
Operating expenses	82,000
Interest expense	<u>7,000</u>
Income before income taxes	\$ 31,800
Income taxes	<u>10,000</u>
Net Income	<u>\$ 21,800</u>

Balance Sheet

Cash	\$ 8,200	Accounts payable	\$ 18,000
Receivables (net)	14,700	Other current liabilities	6,800
Inventory	19,300	Notes payable, 10%	70,000
Property, plant, and equipment (net)	<u>195,800</u>	Common stock, \$10 par	80,500
		Additional paid-in capital	24,000
		Retained earnings	<u>38,700</u>
		Total Liabilities and	
Total Assets	<u>\$238,000</u>	Stockholders Equity	<u>\$238,000</u>

Required:

(a) Assume all the sales made are credit sales. The ending balance of accounts receivable and inventory are the same as its beginning balance. Calculate all risk ratios for Bush Limited. (8 marks)

(b) Given the industry average figure below, evaluate the risk management of Bush Limited. (2 marks)

Receivables turnover ratio	15 times
Average collection period	24.33 days
Inventory turnover ratio	8 times
Average days in inventory	45.63 days
Current ratio	1.60 to 1
Acid-test ratio	0.80 to 1
Debt to equity ratio	50%
Times interest earned ratio	6.80 times

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