

**NATIONAL UNIVERSITY OF SINGAPORE**

**EC2204 Financial Accounting for Economists**

**Semester 2, AY2018-2019  
Mid-Term Examination**

**Time allowed: 1 Hour**

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**INSTRUCTIONS TO CANDIDATES**

1. This examination paper contains **10** pages, including this page.
2. This is a **CLOSED BOOK** assessment.
3. You may use a scientific (non-graphing) calculator.
4. There are TEN (10) True-False questions and TEN (10) multiple-choice questions.
5. Each correct answer is worth 1 point. No marks will be deducted for a wrong answer.
6. Use **Form FAS-10** (the bubble form) to submit your answers. Use Form FAS10 strictly according to the important instructions contained.
7. You are required to turn in Form FAS-10 only. Answers from the Question Booklet would not be accepted.

**Do not turn over until you are told to start writing.**

## **Section A: True-False Questions**

Consider the following statements.

Determine whether the statement is True or False.

Please shade the bubble form according to the following options:

A: True

B: False

### **Question 1:**

When a firm borrows money from a bank, the immediate effect is an increase in shareholder's equity.

### **Question 2:**

Under accruals accounting, the collection of an account receivable will improve the net profit margin of a company.

### **Question 3:**

Under accruals accounting, the collection of an account receivable will improve the current ratio of a company.

### **Question 4:**

Depreciation is a measure of the decline in market value of an asset.

### **Question 5:**

If a company forgot to record depreciation on equipment for a particular year, shareholders' equity would be overstated on the balance sheet in the same year.

**Question 6:**

If a contra-account of \$20,000 is mistakenly included in the same column of the trial balance as the account it offsets, the error will cause the debit and credit column totals to differ by \$40,000.

**Question 7:**

If a company decides to record an expenditure made this period as an expense, when it should have been recorded as an asset, net income will be overstated in the current period as a result.

**Question 8:**

In a deflationary environment, using FIFO (First In First Out) will result in a lower inventory turnover ratio than LIFO (Last In Last Out)

**Question 9:**

If the Prepaid Rent account is not adjusted at the end of the period, Assets and Net income will both be overstated.

**Question 10:**

If the receivables turnover ratio rises significantly, the increase may be a signal that the company is extending credit to high-risk borrowers or allowing an overly generous repayment schedule.

## Section B: Multiple Choice Questions

### Question 11:

At the beginning of the year, Orange Limited's Statement of Financial Position reported the following balances:

Total Assets = \$195,000; Total Liabilities = \$65,000; Share Capital = \$10,000.

During the year, the company reported total revenues of \$226,000 and expenses of \$175,000. Also, dividends during the year totaled \$48,000. The company also issued additional shares of \$10,000 during the year.

Assuming no other changes, the amount of total equity at the end of the year would be:

- A. \$78,000
- B. \$143,000
- C. \$174,000
- D. None of the above

### Question 12:

Consider the following information of Blue Group on 31 December 2018:

Accounts Payable	\$61,250
Accounts Receivable	\$70,500
Building	\$50,000
Share Capital	\$50,000
Cash	\$64,000
Equipment	\$30,000
Insurance Expense	\$5,000
Land	\$125,000
Notes Payable	\$175,000
Sales Revenue	\$25,000
Salaries Expense	\$20,000

What is the amount of retained earnings?

- A. \$23,250
- B. \$32,050
- C. \$53,250
- D. None of the above

**Question 13:**

Ole Company has 100 units in inventory, purchased at \$8 per unit. These units have a current market value of \$7. The entry to write-down the inventory will include :

- A. Credit to Cost of Goods Sold for \$100.
- B. Debit to Cost of Goods Sold for \$700.
- C. Credit to Inventory for \$100.
- D. None of the above

**Question 14:**

Paul Limited has the following information available for the current year:

Net Sales	\$ 1,125,000
Bad Debt Expense	90,000
Accounts Receivable, Beginning of Year	180,000
Accounts Receivable, End of Year	82,500
Allowance For Doubtful Accounts, Beginning of Year	63,000
Allowance For Doubtful Accounts, End of Year	93,000

What was the amount of write-offs during the year?

- A. \$93,000
- B. \$67,500
- C. \$60,000
- D. None of the above

**Question 15:**

The following transactions are February activities of Martial Limited, which provides indoor golf classes:

- I. Martial Limited collected \$16,800 from customers for lessons completed in February.
- II. Martial Limited sold a gift card for golf lessons for \$170 cash in February.
- III. Martial Limited received \$2,000 from services provided to customers in January.
- IV. Martial Limited collected \$3,200 advanced payments for services to start in June.
- V. Martial Limited billed a customer \$128 for services provided on 14 February. The bill is to be paid in March.

Which of the following transactions should revenue be recognized in February?

- A. Transactions I and II.
- B. Transactions I and V
- C. Transactions II and IV.
- D. None of the above

**Question 16:**

Ashley Limited is a company that sells products to the elderly. It was given that the inventory was \$2.4 billion at the end of the quarter, and \$2 billion at the beginning of the quarter. Sales Revenue for the quarter was \$3.8 billion. Gross Profit was \$1.5 billion and Net Profit was \$204 million.

Determine the amount of purchases:

- A. \$2 billion
- B. \$2.3 billion
- C. \$2.7 billion
- D. None of the above

**Question 17:**

A 2 year insurance premium of \$7,200 was paid on 1 January 2018 for coverage beginning on that date. The relevant accounting entry had been correctly accounted for on this date.

Which of the following best describes the adjusting entries on 31 December 2018?

- A. A journal entry with a debit to Insurance Expense and a credit to prepaid insurance for \$7,200 should be recorded.
- B. A journal entry with a credit to Insurance Expense and a debit to prepaid insurance for \$3,600 should be recorded.
- C. No journal entry needs to be made because payment has already been made.
- D. None of the above

**Question 18:**

At the start of the current year, Rashford Corporation had a credit balance in the Allowance for Impairment of \$1,800. During the year a monthly provision of 2% of sales was made for uncollectible accounts.

Sales for the year were \$600,000, and \$5,600 of accounts receivable were written off as worthless. No recoveries of accounts previously written off were made during the year.

The year-end financial statements should show:

- A. Uncollectible accounts expense of \$13,800.
- B. Allowance for Impairment with a credit balance of \$8,200.
- C. Allowance for Impairment with a credit balance of \$6,400.
- D. None of the above

**Question 19:**

For the last several years, Mata Corporation has operated with a gross profit rate of 40%. On 1 January of the current year the company had on hand inventory with a cost of \$600,000. Purchases of inventory during January amounted to \$150,000, and sales for the month were \$360,000.

Using the gross profit method, what is the estimated inventory at 31 January?

- A. \$144,000
- B. \$216,000
- C. \$534,000
- D. None of the above

**Question 20:**

Mata Limited reported revenues of \$645,000 and expenses of \$360,000 for the month of May, before making any month-end adjusting entries. The following data are provided with regard to the adjusting entries:

- I. Portion of insurance expiring in May: \$2,520.
- II. A customer has used the facilities for two weeks in May: however, the fee of \$4,200 has not yet been billed.
- III. Amount owed for salaries accrued in the last week of May: \$1,650.
- IV. Depreciation on equipment for May: \$1,290.
- V. Supplies used in May: \$13,125.
- VI. Fees collected in advance which have been earned during May: \$23,400.

Determine the profit after adjustment.

- A. \$270,615
- B. \$289,815
- C. \$294,015
- D. None of the above



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