

NATIONAL UNIVERSITY OF SINGAPORE
EC2204 Financial Accounting for Economists

Semester 2, AY2019-2020
Mid-Term Examination

Time allowed: 1 Hour

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 eighteen (18) 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.

Question 1:

Which of the following statements about expenses are correct?

Statement 1:

Unpaid expenses may be included as an expense on the income statement.

Statement 2:

Prepaid expenses are assets that should appear on the balance sheet.

- A. Statement 1 only.
- B. Statement 2 only.
- C. Both Statements 1 and 2 are correct.
- D. Both Statements 1 and 2 are incorrect.

Question 2:

Which of the following statements about depreciation are correct?

Statement 1:

Total depreciation expense over an asset's useful life will be identical under all methods of depreciation.

Statement 2:

Depreciation is higher and profit is lower in the short run when using accelerated methods as compared to straight-line methods.

- A. Statement 1 only.
- B. Statement 2 only.
- C. Both Statements 1 and 2 are correct.
- D. Both Statements 1 and 2 are incorrect.

Question 3:

Which of the following statements about the allowance for impairment are correct?

Statement 1:

The Allowance for Impairment represents the difference between the face value of accounts receivable and the estimated collectible amount of accounts receivable.

Statement 2:

The Allowance for Impairment represents cash set aside to make up for bad debt losses.

- A. Statement 1 only.
- B. Statement 2 only.
- C. Both Statements 1 and 2 are correct.
- D. Both Statements 1 and 2 are incorrect.

Question 4:

Which of the following statements about overstatement of inventory are correct?

Statement 1:

An overstatement of ending inventory will cause an overstatement of assets and an understatement of shareholders' equity on the balance sheet.

Statement 2:

An overstatement of beginning inventory causes net profit to be overstated.

- A. Statement 1 only.
- B. Statement 2 only.
- C. Both Statements 1 and 2 are correct.
- D. Both Statements 1 and 2 are incorrect.

Question 5:

Which of the following statements about accounts receivables are correct?

Statement 1:

The collection of an account receivable will cause total assets to decrease.

Statement 2:

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.

- A. Statement 1 only.
- B. Statement 2 only.
- C. Both Statements 1 and 2 are correct.
- D. Both Statements 1 and 2 are incorrect.

Question 6:

Consider Orion Limited with the following accounting records in the Balance Sheet:

	\$
Land	135,000
Building.....	65,000
Equipment	35,000
Accounts receivable	?
Cash	90,000
Notes payable.....	90,000
Accounts payable	45,600
Share Capital.....	190,000
Retained Earnings	49,400

Determine the amount of Accounts Receivable for Orion Limited.

- A. \$40,000
- B. \$50,000
- C. \$60,000
- D. None of the above

Use the following to answer Questions 7 and 8:

Leo Tan set up a company Leo's Repairs on 1 March 2019. During the month, the following transactions occurred and were recorded in the company's books:

1. Leo received shares for investing \$25,000 cash and \$100,000 of equipment in the business.
2. The company paid \$2,000 cash to rent office space for the month.
3. The company received \$16,000 cash for repair services provided during March.
4. The company paid \$6,200 for salaries for the month.
5. The company provided \$3,000 of services to customers on account.
6. The company paid cash of \$500 for monthly utilities.
7. The company received \$3,100 cash in advance of providing repair services to a customer.
8. The company paid dividend of \$5,000.

Question 7:

Determine the net profit that appear in the Income Statement for Leo's Repairs in March.

- A. \$7,300
- B. \$9,300
- C. \$10,300
- D. None of the above

Question 8:

Determine the amount of equity that appear in the Balance Sheet of Leo's Repairs at the end of March.

- A. \$133,300
- B. \$144,100
- C. \$150,200
- D. None of the above

Question 9:

The following transactions occurred during April, the first month of operations for Aquila Products Limited:

1. Issued 50,000 shares in exchange for \$600,000 cash
2. Purchased a piece of land for \$400,000, making a \$150,000 cash down payment and signing a note payable for the balance.
3. Made a \$60,000 cash payment on the note payable from the purchase of land.
4. Purchased equipment on credit from Andromeda Limited for \$63,000.

Determine the value of total assets of Aquila Products at the end of April.

- A. \$453,000
- B. \$790,000
- C. \$853,000
- D. None of the above

Question 10:

Sagittarius Media had the following assets and liabilities at the beginning and end of the current year:

	<u>Assets</u>	<u>Liabilities</u>
Beginning of the year.....	\$114,000	\$68,000
End of the year.....	\$135,000	\$73,000

If Sagittarius Media issued additional shares for \$12,000 and paid dividends \$5,000 during the year, what was the amount of net profit earned by Sagittarius Media?

- A. \$9,000
- B. \$16,000
- C. \$23,000
- D. None of the above.

Question 11:

On 1 May 2019, the inventory of Hercules Shoes was \$60,000. Sales Revenue during May are expected to total \$70,000, with a gross profit margin of 45%.

Because of anticipated back-to-school sales, the owner wants to have an inventory of \$105,000 on hand at the beginning of June. How much goods should the company purchase at the end of May to meet the desired inventory level for June?

- A. \$38,500
- B. \$83,500
- C. \$108,500
- D. None of the above.

Question 12:

Pegasus Office Services issued shares for \$10,000 cash and \$15,000 of computer equipment.

Which of the following journal entries should be made to record this transaction?

- A. Debit Share Capital \$25,000
Credit Cash \$10,000,
Credit Computer Equipment \$15,000
- B. Debit Cash \$10,000
Debit Share Capital \$5,000
Credit Computer Equipment \$15,000
- C. Debit Computer Equipment \$15,000
Credit Share Capital \$5,000
Credit Cash \$10,000
- D. None of the above

Question 13:

In January, Gemini Limited pays \$4500 in cash to the local newspaper for advertisements to be run during the months of January, February, and March. The advertisement cost \$1,500 per month.

Determine the journal entry to record the payment in January.

- A. Debit Advertising Expense \$1,500
 Debit Prepaid Advertising \$3,000
 Credit Cash \$4,500
- B. Debit Advertising Expense \$4,500
 Credit Cash \$4,500
- C. Debit Accounts Payable \$4,500
 Credit Cash \$4,500
- D. None of the above

Question 14:

An asset's carrying amount is \$36,000 on 1 January 2016. The asset is being depreciated \$500 per month using the straight-line method.

Assuming the asset is sold on 1 July 2017 for \$25,000, the company should record:

- A. A loss on sale of \$2,000
- B. A gain on sale of \$2,000
- C. Neither a gain or loss is recognized.
- D. None of the above

Question 15:

Pisces Company installs a manufacturing machine in its factory at the beginning of the year at a cost of \$87,000. The machine's useful life is estimated to be 5 years, or 400,000 units of product, with a \$7,000 residual value. During its second year, the machine produces 84,500 units of product.

Determine the machines' second year depreciation under the double-declining-balance method and unit production method:

- A. Double Declining Balance: \$20,880
Unit Production Method: \$16,900
- B. Double Declining Balance: \$34,800
Unit Production Method: \$18,378
- C. Double Declining Balance: \$26,880
Unit Production Method: \$18,880
- D. None of the above

Question 16:

Virgo Limited reported sales revenue (all of which arose from credit sales) of \$48,000 on the income statement. Balance sheet information includes the following:

Accounts Receivable, beginning of year	\$ 5,400
Accounts Receivable, end of year	960
Deferred Revenue, beginning of year	0
Deferred Revenue, end of year	9,300

How much cash was collected from customers during the year?

- A. \$13,740
- B. \$52,440
- C. \$61,740
- D. None of the above

Question 17:

If the total amount that should have been debited to Rent Expense is mistakenly debited to Prepaid Rent, what will be the effect on the financial statements for the year?

- A. Revenues will be overstated.
- B. Assets will be overstated.
- C. Expenses will be overstated.
- D. None of the above

Question 18:

What are the effects on the accounting equation from the adjustment for income tax expense accrued, but not paid, at the end of the accounting period?

- A. Total liabilities will decrease and total shareholders' equity will decrease
- B. Total liabilities will increase and total shareholders' equity will decrease
- C. Total liabilities will decrease and total shareholders' equity will increase
- D. None of the above

- End of Paper -