

**NATIONAL UNIVERSITY OF SINGAPORE**  
**EC2204 Financial Accounting for Economists**

**Semester 1, 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 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 FAS-10 strictly according to the important instructions contained. Use 2B pencils only.
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:**

Under accrual accounting, which of the following errors would most likely lead to an overstatement of net profit in the current year?

- A. Recording revenue next year since the cash is collected next year, although the performance obligation is satisfied in the current year.
- B. Recording an expense when paid next year although it is incurred this year.
- C. Failing to adjust the Deferred Revenue account for the portion of rent earned this year.
- D. None of the above

**Question 2:**

Consider Noble Group. Assets totaled \$24,250 and liabilities totaled \$8,500 at the beginning of the year. During the year, assets decreased by \$3,500 and liabilities increased by \$2,800.

What is the amount of shareholders' equity at the end of the year?

- A. \$9,450
- B. \$14,450
- C. \$15,750
- D. None of the above

**Question 3:**

Lanzini Inc. received payment from a customer in June for a service that was provided during July. How will this be reflected in the basic accounting equation for Lanzini Inc in July?

- A. Assets will increase, liabilities will increase, and shareholders' equity will not change.
- B. Assets will increase, liabilities will not change, and shareholders' equity will increase.
- C. Assets will not change, liabilities will decrease, and shareholders' equity will increase.
- D. None of the above

**Question 4:**

Yarmolenko Limited commenced with capital in cash of \$1,000. Inventory costing \$800 is purchased on credit, and half is sold for \$1,000 cash plus sales tax of \$175. The firm is liable to pay the sales tax to the government at the end of the year.

Determine the amount of assets and liabilities of the firm immediately after all the transactions have taken place.

- A. Assets: \$1,775; Capital: \$1,200
- B. Assets: \$2,175; Capital: \$1,775
- C. Assets: \$2,575; Capital: \$1,600
- D. None of the above

Use the following information to answer Questions 5 and 6. Fabianski Limited uses a periodic inventory system. At the end of 2017, the accounting records included the following information:

Inventory, 31 December 2016	\$1,390
Inventory, 31 December 2017	\$1,560
Revenue	\$14,800
Purchases	\$8,280

A review of inventory items revealed the need for some adjustments:

1. Items which had cost \$80 and which would normally sell for \$120 were found to have deteriorated. Remedial work costing \$20 would be needed to enable the items to be sold for \$90. The items have not been sold as of 31 December 2017.
2. Some items sent to customers on consignment had been omitted from inventory and included as sales in October 2017. The cost of these items was \$16 and they were included in the sales at \$24. The items have not been sold by the customers as of 31 December 2017.

**Question 5:**

Calculate Fabianski Limited's Revenue for 2017:

- A. \$14,776
- B. \$14,800
- C. \$14,884
- D. None of the above

**Question 6:**

Calculate Fabianski Limited's Cost of Goods Sold for 2017:

- A. \$8,104
- B. \$8,110
- C. \$8,094
- D. None of the above

**Question 7:**

Reid Enterprises receives \$100,000 cash from its customers on account. Given that Reid Enterprises uses the cash to pay off \$100,000 on a bank loan, the net result is:

- A. Assets would increase by \$100,000 while liabilities would decrease by \$100,000.
- B. Liabilities would decrease by \$100,000 while stockholders' equity would increase by \$100,000.
- C. Assets would decrease by \$100,000 and liabilities would decrease by \$100,000.
- D. None of the above

**Question 8:**

The following account balances were listed on the trial balance of Hernandez Company at the end of the period (with the usual debit/credit sign associated with it):

<u>Account</u>	<u>Balance</u>
Accounts Payable	\$ 90,600
Cash	48,900
Common Stock	30,000
Equipment	13,500
Land	45,000

The company's trial balance is not in balance and the company's accountant has determined that the error is in the cash account. What is the correct balance in the cash account?

- A. \$31,500
- B. \$57,900
- C. \$62,100
- D. None of the above

**Question 9:**

The employees of Wilshire Inc. worked during July but are not paid their wages totaling \$800 until August. Which of the following best indicates how to account for this transaction in July?

- A. A journal entry with a debit to Salaries and Wages Payable and a credit to Salaries and Wages Expense for \$800 should be recorded.
- B. A journal entry with a debit to Salaries and Wages Expense and a credit to Salaries and Wages Payable for \$800 should be recorded.
- C. No journal entry needs to be made because payment has not yet been made.
- D. None of the above

**Question 10:**

Which of the following statements are **correct**:

- A. 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.
- B. If a company forgot to record depreciation on equipment for a period, total shareholder's equity would be understated on the balance sheet.
- C. If a company forgot to prepare an adjusting entry to record salaries and wages incurred but unpaid at the end of the period, Retained Earnings would be understated on the balance sheet.
- D. None of the above

**Question 11:**

Which of the following statements about depreciation methods is **not correct**?

- A. The amount of depreciation expense recorded in each year of an asset's life depends on the method that is used.
- B. The total depreciation over the asset's useful life will be the same regardless of the depreciation method used.
- C. The amount of net income reported each year will be the same regardless of the depreciation method used.
- D. None of the above

**Question 12:**

On 1 January, Perez Coffee Shop paid \$24,000 for a full year of rent beginning on 1 January. The rent payment was appropriately recorded in the Cash and Prepaid Rent accounts. If financial statements are prepared on 31 January, the journal entry to record the adjustment would be:

- A. Debit Rent Expense and credit Prepaid Rent for \$2,000.
- B. Debit Rent Expense and credit Prepaid Rent for \$24,000.
- C. Debit Prepaid Rent and credit Rent Expense for \$24,000.
- D. None of the above

**Question 13:**

Which of the following statements are correct:

- A. An overstatement of ending inventory will cause an overstatement of assets and an understatement of stockholders' equity on the balance sheet.
- B. An overstatement of beginning inventory causes net income to be overstated.
- C. In an inflationary environment, net profit will be higher under the weighted average cost method as compared to the First in, First Out (FIFO) method.
- D. None of the above

**Question 14**

Anderson Company has a periodic inventory system and uses the Last in, First Out (LIFO) method to assign costs to inventory and cost of goods sold. Consider the following information:

<u>Date</u>	<u>Description</u>	<u># of units</u>	<u>Cost per unit</u>
1 January	Beginning inventory	100	\$ 5
5 October	Purchase	75	\$ 4
13 December	Sales	125	

What amounts would be reported as the cost of goods sold and ending inventory balances for the period?

- A. Cost of goods sold \$550; Ending inventory \$250
- B. Cost of goods sold \$625; Ending inventory \$175
- C. Cost of goods sold \$755; Ending inventory \$225
- D. None of the above



**Question 15**

Arnautovic Limited bought a machine for \$40,000 and expects to use it for eight years. The residual value is \$3,500. Given that the company uses the double-declining-balance method and has already recorded accumulated depreciation of \$35,995, what is the company's annual depreciation expense for the upcoming year?

- A. \$505
- B. \$1,001
- C. \$9,125
- D. None of the above

**Question 16**

During the current accounting period, revenue from credit sales is \$536,800. The Accounts Receivable balance is \$41,184 at the beginning of the period and \$41,760 at the end of the period. Which of the following statements is correct?

- A. On average, it takes 12.9 days to collect payment from credit customers.
- B. The receivables turnover ratio is 12.9.
- C. On average, the company sells its inventory every 28.3 days.
- D. None of the above

**Question 17**

A company has a debt-to-assets ratio of 0.45. If the company then borrows cash from the bank to finance a building acquisition, which of the following is a correct statement?

- A. The debt-to-assets ratio will be unchanged.
- B. The debt-to-assets ratio will increase
- C. The debt-to-assets ratio will decrease
- D. I don't know.

**Question 18**

Which of the following would improve a current ratio that is now 1.2?

- A. Selling long-term assets for cash
- B. Collecting cash from accounts receivables
- C. Buying inventories using cash
- D. I really don't know.

**- End of Paper -**