

**NATIONAL UNIVERSITY OF SINGAPORE**

**EC2204 Financial Accounting for Economists**

**Semester 1, AY2019-2020  
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 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:**

Lion Limited was formed with \$300,000 cash contributed by its owners in exchange for common stock. The company borrowed \$150,000 from a bank.

Subsequently, the company purchased \$50,000 of inventory and paid cash for it. The company also purchased \$350,000 of equipment by paying \$50,000 in cash and issuing a note for the remainder.

What is the amount of the total assets to be reported on the balance sheet?

- A. \$400,000
- B. \$750,000
- C. \$800,000
- D. None of the above

**Question 2:**

At the end of last financial year, Zebra Company's assets totaled \$430,000 and its liabilities totaled \$370,000. During the current year, the company's total assets increased by \$29,000 and its total liabilities increased by \$12,000.

Determine the shareholder's equity of Zebra Company at the end of the current year:

- A. \$17,000
- B. \$60,000
- C. \$77,000
- D. None of the above

**Question 3:**

The following accounts are taken from the Financial Statements of Penguin Limited as of 31 December 2018.

Accounts Payable	\$ 2,075
Accounts Receivable	800
Selling & Administrative Expenses	2,500
Cash	2,200
Common Stock	2,000
Dividends	1,900
Income Tax Expense	400
Interest Expense	75
Other Expenses	500
Notes Payable	5,000
Other Assets	2,500
Other Liabilities	3,000
Other Operating Expenses	2,000
Other Revenue	300
Property and Equipment	11,000
Retained Earnings, 31 December 2017	4,800
Salaries and Wages Expense	3,000
Supplies	300
Service Revenue	10,000

What is the amount of Retained Earnings on the Balance Sheet as of 31 December 2018?

- A. \$4,725
- B. \$5,725
- C. \$6,725
- D. None of the above

**Question 4:**

Using accrual basis 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 next year as cash is 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 5:**

Giraffe Company contracted for a 30-second commercial (an advertisement) that aired during the F1 Racing in Singapore at a cost of \$1.2 million. It is legally obligated to pay for the commercial, but has not yet done so.

Given that Giraffe Company had not accounted for the transaction previously, examine how the balance sheet would be affected on the day the commercial aired.

- A. It does not affect the balance sheet
- B. It increases both assets and liabilities by \$1.2 million
- C. It increases liabilities and decreases shareholders' equity by \$1.2 million each
- D. None of the above

**Question 6:**

Cow Inc. received payment from a customer in June for a service that was to be provided in July.

How would this be reflected in the basic accounting equation for the month of July?

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

**Question 7:**

On 31 December 2018, Meow Limited paid \$9,800 to rent a storage facility from 1 July 2019 to 1 July 2020.

Which of the following statements about the effect of this transaction on Meow Limited's financial statements is correct?

- A. Prepaid Rent in the amount of \$9,800 will be reported as a liability on the balance sheet at 31 December 2018.
- B. Prepaid Rent in the amount of \$9,800 will be reported as an asset on the balance sheet at 31 December 2019.
- C. Rent Expense in the amount of \$9,800 should be reported on the income statement for the year ended 31 December 2018.
- D. None of the above

**Question 8:**

Eagle Company reported Wages Payable of \$1,500 at the beginning of the year and \$5,000 at the end of the year. The income statement for the year reported Wages Expense of \$112,400.

How much wages was paid in cash during the year?

- A. \$105,900
- B. \$108,900
- C. \$112,400
- D. None of the above

**Question 9:**

On 31 July 2018, Shark Company paid for a new two-year insurance policy that cost \$27,000 in cash. Proper accounting entries have been entered for this transaction.

Which of the following include the correct adjusting entries to be made on 31 December 2018?

- A. Debit to Insurance Expense \$6,750
- B. Debit to Prepaid Insurance \$6,750
- C. Credit to Prepaid Insurance \$5,625
- D. None of the above

**Question 10:**

Horse Stables Limited had beginning inventory of \$54,000. During the financial year ending 31 March 2019, the company purchased \$109,800 of merchandise. On 31 March 2019, the closing inventory was \$39,600.

If the Gross Profit Margin was 40%, determine Horse Stables Limited's Sales Revenue.

- A. \$82,800
- B. \$135,000
- C. \$207,000
- D. None of the above

**Question 11:**

Snaky Flaky Company uses the FIFO method to assign costs to inventory and cost of goods sold. The company uses a periodic inventory system. Consider the following information:

<u>Date</u>	<u>Description</u>	<u>Units</u>	<u>Cost per unit</u>
January 1	Beginning inventory	100	\$ 5
June 2	Purchase	75	\$ 4
November 5	Sales	125	

Determine the Cost of goods sold and ending Inventory balances for the year.

- A. Cost of goods sold \$550; Ending inventory \$250.
- B. Cost of goods sold \$625; Ending inventory \$175.
- C. Cost of goods sold \$600; Ending inventory \$200.
- D. None of the above

**Question 12:**

Tiger Industries had been selling its product for \$40 per unit, but recently lowered the selling price to \$30 per unit. The company's current inventory consists of 200 units purchased at \$32 per unit. The market value of this inventory is currently \$26 per unit.

How much should the company's inventory be reported on the balance sheet?

- A. \$5,200
- B. \$6,000
- C. \$6,400
- D. None of the above

**Question 13:**

In an inflationary environment, which of the following statement with regard to the use of LIFO (Last in First out) to measure inventory is correct.

- A. LIFO results in a higher book value of inventory and lower inventory turnover ratio than FIFO.
- B. LIFO results in a lower book value of inventory and lower inventory turnover ratio than FIFO.
- C. LIFO results in a lower book value of inventory and higher inventory turnover ratio than FIFO.
- D. None of the above

**Question 14:**

An intern made a mistake and recorded depreciation expense for the year twice. This error will cause:

- A. Assets to be overstated.
- B. Liabilities to be understated.
- C. Shareholders equity to be understated.
- D. None of the above



**Question 15:**

On 31 December 2018, Deer Limited records an adjusting entry to accrue interest on a note.

On 31 January 2019, Deer Limited receives cash for \$4,680, which represents two months of accumulated interest on the note (December 2018 and January 2019).

Upon receipt of this interest payment, which of the following journal entries should be made to record this transaction?

- A. Debit Cash for \$4,680 and Credit Interest Receivable for \$4,680
- B. Debit Cash for \$4,680, Credit Interest Receivable for \$2,340, and Credit Interest Revenue for \$2,340
- C. Debit Interest Receivable for \$2,340, Debit Cash for \$2,340, and Credit Interest Revenue for \$4,680.
- D. None of the above

**Question 16:**

Sheep Company uses the allowance method in managing the Accounts Receivables.

Mr Sheep writes off a customer account balance when it becomes clear that the particular customer will never pay. How will this write-off affect the company's net profit and accounts receivable turnover ratio?.

- A. Net profit and the account receivable turnover ratio will both decrease.
- B. Net profit will decrease; the account receivable turnover ratio will not change
- C. Net profit will not change; the account receivable turnover ratio will decrease
- D. None of the above

**Question 17:**

On 1 January 2017, Gryphon Company bought a new delivery truck for \$30,000. The company plans to use the truck for 4 years, after which it will be sold for \$6,000.

Using double-declining-balance, determine the depreciation expense for 2020 (the fourth year of use):

- A. \$0
- B. \$1,500
- C. \$3,750
- D. None of the above

**Question 18:**

Company A uses an accelerated depreciation method while Company B uses the straight-line method.

All other things being equal, during the first year of the asset's use, how will Company A perform relative to Company B?

- A. Lower asset values and lower net profit
- B. Lower asset values and higher net profit
- C. Higher asset values and higher net profit
- D. None of the above

**- End of Paper -**