

Mid Term Exam Accounting International Business Administration (IBA)

Tuesday 21 April 2015

8:45-10:45 hrs.

Instructions

- This exam consists of multiple choice questions. Question 1 consists of six separate multiple choice questions, each carrying 1 mark. Questions 2-15 each carry 1 mark. Maximum total marks is therefore 20.
- Use of graphical calculators is not allowed.
- The exam consists of 5 pages including the title page.

Good luck!

1. Indicate whether each of following accounts is an asset (A), a liability (L), an expense (E), revenue (R) or part of shareholders' equity (SE):

- | | |
|------------------------|--------------------------|
| a. Salaries payable | d. Unearned Revenue |
| b. Accounts receivable | e. Prepaid Rent expenses |
| c. Common stock | f. Inventories |

2. State whether the following statements are correct or incorrect:

- i. An increase in equity always means that the business has made a profit.
- ii. A decrease in cash always means that the business has incurred some expenses.

- a. Statement (i) is correct and statement (ii) is incorrect
- b. Statement (ii) is correct and statement (i) is incorrect
- c. Both statements (i) and (ii) are correct
- d. Both statements (i) and (ii) are incorrect.

3. Martin Blair is the owner and operator of Martin Consultants. At 31 December 2013, Martin Consultants has assets of €430,000 and liabilities of €205,000. During the year to 31 December 2014, Martin Consultants' assets decreased by €8,000 and liabilities increased by €14,000.

What is Martin Blair Consultants' equity as of 31 December 2014?

- a. €203,000
- b. €219,000
- c. €225,000
- d. €247,000

4. Spreading the cost of a fixed asset over its useful life (depreciation) is an example of applying the:

- a. Prudence principle
- b. Realization principle
- c. Matching principle
- d. Materiality convention

5. For the month of December 2014, the following information is available for the Cash account of GINE Corporation: total cash received during the month €60,000; total cash paid during the month €85,000 (including €5,000 for dividends); balance of cash account on 31 December 2014 €20,000.

What is the balance of the Cash account on 1 December 2014?

- a. €5,000
- b. €25,000
- c. €45,000
- d. €50,000

6. ENERGY Co. sets up an oil platform in the North Sea in 2014. The platform has a useful life of 20 years, after which ENERGY Co. will have to incur significant expenses to remove the platform, complying with environmental legislation. Assuming that ENERGY prepares its financial statements adopting an 'asset-liability' approach, what is the most appropriate way to account for the removal expenses?

- a. All of the removal expenses are recognized in the income statement in the year during which the platform is removed (i.e. after 20 years)
- b. During each of the 20 years of the useful life of the platform, 1/20th of the expected removal expenses are recognized in the income statement.
- c. The estimated removal expenses are recognized in the income statement in the year during which the platform is set up (i.e. in year 1), and additional expenses in later years when estimates of the removal costs are modified.
- d. When the removal takes place (i.e. after 20 years), the expense is charged directly to equity (through 'other comprehensive income').

7. What is the best explanation of the following journal entry:

Cash	€5,000	
To Unearned revenue		€5,000

- a. Received cash for services performed.
- b. Received cash for services to be performed in the future.
- c. Paid cash in advance for services to be performed.
- d. Performed services for which cash is owed.

8. Tanning Company analyzes its receivables to estimate bad debt expenses. The Accounts Receivable balance on 31 December 2014 is €390,000 and credit sales for 2014 are €1,300,000. The Allowance for Doubtful Accounts has a credit balance of €2,500 on 1 January 2014. In its 31 December 2014 balance sheet, the company wishes to recognize an allowance for doubtful accounts receivables equal to 3% of credit sales for the year. Which of the following adjusting entries should the company make to record the allowance for doubtful receivables at the end of the year?

	Dr.	Cr.
a. Accounts Receivable	€36,500	
To Allowance for Doubtful Accounts		€36,500
b. Bad Debt Expenses	€39,000	
To Allowance for Doubtful Accounts		€39,000
c. Allowance for Doubtful Accounts	€39,000	
To Accounts Receivable		€39,000
d. Bad Debt Expenses	€36,500	
To Allowance for Doubtful Accounts		€36,500

9. State whether the following statements are correct or incorrect:

- i. If a company pays a stock dividend, its total equity decreases
- ii. If a listed company buys back some of its own shares, its total equity decreases .

- a. Statement (i) is correct and statement (ii) is incorrect
- b. Statement (ii) is correct and statement (i) is incorrect
- c. Both statements (i) and (ii) are correct
- d. Both statements (i) and (ii) are incorrect

10. An overpayment error was discovered in computing and paying the wages of a Jamison Tree Trimming employee. When Jamison receives cash from the employee for the amount of the overpayment, which of the following entries will Jamison make?

- a. Debit Cash and credit Wages Expense
- b. Debit Wages Payable and credit Wages Expense
- c. Debit Wages Expense and credit Cash
- d. Debit Cash and credit Wages Payable

11. State whether the following statements are correct or incorrect:

- i. An increase of inventories is shown as a negative item in the operating cash flow section of a cash flow statement prepared using the indirect method.
- ii. A cash flow statement prepared using the direct method will not include an item for depreciation.

- a. Statement (i) is correct and statement (ii) is incorrect
- b. Statement (ii) is correct and statement (i) is incorrect
- c. Both statements (i) and (ii) are correct.
- d. Both statements (i) and (ii) are incorrect

12. On 1 January 2014, S&A Repair Company issued bonds ('loan notes' in your book) with a nominal value of €1mln. The total amount of money raised by issuing the bonds in the public capital market was €1.1 mln. The bonds have a contractual interest rate of 3%. What can you say about the interest expense recognized in the income statement for the year ending on 31 December 2014 in connection with the bond?

- a. The interest expense will be zero
- b. The interest expense will be greater than zero but lower than €30,000
- c. The interest expense will be equal to €30,000
- d. The interest expense will be higher than €30,000

13. The accounts in the ledger of Monroe Entertainment Co. are listed below. All accounts have normal balances (i.e. debit or credit as expected, given the name of the account):

Accounts Payable	€1,500	Sales revenue	€3,600
Accounts Receivable	1,800	Insurance Expense	1,300
Prepaid Insurance	2,000	Land	3,000
Cash	3,200	Wages Expense	1,400
Interest expense	1,200	Capital	8,800

What is the total of the credits on the Trial Balance?

- a. €9,700
- b. €11,200
- c. €12,700
- d. €13,900

14. The following lots of a particular commodity were available for sale during the year:

Beginning inventory	10 units	at €30
First purchase	25 units	at €32
Second purchase	30 units	at €34
Third purchase	10 units	at €35

There are 20 units of the commodity on hand at the end of the year.

What is the amount of inventory at the end of the year according to the LIFO method?

- a. €620
- b. €655
- c. €659
- d. €690

15. On 1 December, a company buys trade goods costing €150. During the month, it sells half of the goods for €100. On 31 December, the expected selling price of the remaining goods is €120.

Which of the following statements is correct with respect to these goods and the month of December?

- a. Realized holding gains are €25, there are no unrealized holding gains
- b. Realized holding gains are €25, unrealized holding gains are €45
- c. Realized holding gains are €45, unrealized holding gains are €25
- d. Unrealized holding gains are €70

End of the exam