

NANYANG TECHNOLOGICAL UNIVERSITY

SPECIAL TERM I EXAMINATION 2014-2015

BU8101 – Accounting: A User Perspective

June 2015

Time Allowed: 2½ hours

INSTRUCTIONS

- 1 This paper contains **FOUR (4)** questions and comprises **EIGHT (8)** pages.
 - 2 Answer ALL **FOUR (4)** questions as follows:
Section A – One (1) question.
Section B – Three (3) questions.
 - 3 The number of marks allocated is shown at the end of each question.
 - 4 Shade your answers to the multiple-choice questions in Section A on the Scantron sheet. Use only 2B pencils and erasers. Complete the front of the Scantron sheet as follows:
 - (a) Write your Subject Title as Accounting: A User Perspective.
 - (b) Write your Subject Code as BU8101.
 - (c) Write clearly your Seat Number.
 - (d) Write the date of the examination clearly.
 - (e) Write and shade your matriculation number in the box provided for matriculation number. Read the examples shown and ask for clarification if you have any doubt.
 - 5 Begin your answer to each question in Section B on a separate page of the answer booklet.
 - 6 Answers will be graded for content and appropriate presentation. Show supporting workings where appropriate.
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SECTION A

Question 1

This question consists of **TWENTY (20)** multiple-choice questions. Choose the correct answer from the alternatives given. In your **SCANTRON SHEET**, shade the correct answer (A), (B), (C) or (D) next to the question number. Each multiple-choice question carries two (2) marks.

Note: Question No. 1 continues on page 2

Question 1 (continued)

- (1) Candy Pte Ltd has a quick ratio of 1.2 and quick assets amounting to \$60,000. If the working capital is \$55,000, what is the current ratio? (nearest 2 decimal place)
 - (A) 0.98
 - (B) 1.42
 - (C) 1.75
 - (D) 2.10

- (2) If only the debit entry is posted for the payment of salaries in the current month,
 - (A) Assets will be overstated
 - (B) Revenues will be overstated
 - (C) Expenses will be overstated
 - (D) Liabilities will be overstated

- (3) During the current fiscal year, a company wrongly recorded indirect material as direct material. What will be the likely effect of this error on the net income of the period if all indirect material was used in the current year?
 - (A) Revenue will be overstated
 - (B) Revenue will be understated
 - (C) Cost of goods sold will be understated
 - (D) None of the above

- (4) Which of the following is **NOT** reported on the statement of cash flows using the direct method?
 - (A) Cash received from customers
 - (B) Income taxes paid
 - (C) Depreciation expenses
 - (D) Dividends paid

- (5) Qi Pte Ltd applies overhead to jobs on the basis of machine hours. In the coming year, it expects to incur total manufacturing overhead of \$450,000 and use 90,000 machine hours. During the year, actual machine hours totaled 95,000 hours and the actual manufacturing overhead was over-applied by \$2,000. What is the actual manufacturing overhead for the year?
 - (A) \$450,000
 - (B) \$473,000
 - (C) \$475,000
 - (D) \$477,000

- (6) Under-applied manufacturing overhead is deducted from
 - (A) The total manufacturing cost for the period
 - (B) The cost of goods sold
 - (C) The ending work in process inventory
 - (D) None of the above

Note: Question No. 1 continues on page 3

Question 1 (continued)

(7) The factory supervisor's salary is considered as

	Prime Cost	Conversion Cost	Product Cost	Variable Cost
(A)	Yes	Yes	Yes	Yes
(B)	No	No	Yes	Yes
(C)	No	No	Yes	No
(D)	Yes	Yes	Yes	No

(8) Song Teng Pte Ltd sells three products X, Y and Z in proportion of 15%, 30% and 55% respectively. If the fixed cost is \$750,000 and the weighted-average contribution margin is \$100, compute the sales units of product Y for the company at breakeven.

- (A) 7,500
 (B) 2,250
 (C) 1,125
 (D) None of the above

(9) The balance in the rent payable account is reported in which of the following financial statements?

- (A) Income statement
 (B) Statement of cash flows
 (C) Balance sheet
 (D) Statement of shareholders' equity

(10) Leaf Pte Ltd had the following costs records for June 2015.

Job number	Balance as at 1 June	Production costs in June
35	\$1,010	\$500
36	\$800	\$450
37	\$0	\$850

Job 35 was delivered to the customer on 29 June 2015. Job 36 was completed in June and will be delivered in July. Job 37 was unfinished at 30 June. What is the balance in the work in process inventory as at the end of June 2015 for Leaf?

- (A) \$2,760
 (B) \$2,100
 (C) \$1,250
 (D) \$850

(11) A cheque paid to a supplier for \$222 was mistakenly recorded in the books as \$425. The error would be shown in the bank reconciliation statement as a

- (A) \$425 deduction from the book balance
 (B) \$203 deduction from the book balance
 (C) \$425 addition to the book balance
 (D) \$203 addition to the book balance

Note: Question No. 1 continues on page 4

Question 1 (continued)

- (12) ABC Pte Ltd sold its fully depreciated equipment on 31 December 2014 for \$4,000 cash, resulting in a loss of \$1,000. The equipment was bought on 1 January 2010, and had an estimated residual value of \$5,000. The accumulated depreciation (based on a straight line method) amounted to \$80,000 on 31 December 2013. How much did ABC pay for the equipment originally?
- (A) \$90,000
 - (B) \$95,000
 - (C) \$105,000
 - (D) \$110,000
- (13) A company will record inventory as an expense when
- (A) It pays suppliers from inventory it bought last month
 - (B) It purchases inventory on credit
 - (C) It sells the inventory to customers
 - (D) It collects cash from customers for a previous sale
- (14) Which of the following statements is true?
- (A) An error understating ending inventory in the current year will overstate cost of goods sold for the current year
 - (B) In rising prices, using FIFO inventory valuation will result in the highest costs of goods sold
 - (C) Applying the lower of cost or net realizable value for inventory valuation may lead to inventory values being much higher than its historical costs
 - (D) The FIFO method provides the best matching of current expenses and revenue
- (15) On 1 June 2015, Pepa Pte Ltd bought a delivery van for \$120,000. It paid a commission of \$4,000 to the agent and purchased a one year maintenance contract for \$4,800. The firm also handed the agent \$5,600 for road tax and insurance for the current year. What is the amount recorded for the delivery van in the books?
- (A) \$120,000
 - (B) \$124,000
 - (C) \$128,800
 - (D) \$134,400
- (16) Anot Pte Ltd accounts for impairment of accounts receivable using the allowance method. On 15 June 2014, Anot wrote off an amount of \$2,750 owing by AP Pte Ltd. What effect does this transaction have on Anot's accounting equation?
- (A) Expenses are increased
 - (B) Liabilities are increased
 - (C) Assets and liabilities are decreased
 - (D) No effect

Note: Question No. 1 continues on page 5

Question 1 (continued)

- (17) The accounts receivable balance on 1 January 2013 was \$15,500. During the year, sales amounted to \$400,000 (60% cash sales). There were sales returns on credit sales of \$2,450 and one debtor worth \$3,400 was written off during the year. There was no other adjustment for impairment of account receivables during the year. What is the total amount received from all customers during the year if the ending balance for accounts receivable is \$15,500 at 31 December 2013?
- (A) \$154,150
 - (B) \$169,650
 - (C) \$394,150
 - (D) \$400,000
- (18) The shareholder's equity of French Bread Pte Ltd had 200,000 outstanding shares at \$1.50 per share as at 1 December 2013. During the year, the company earned revenues of \$3,000,000 and incurred expenses of \$1,672,000. It paid a dividend of \$1.25 per share for the year. If the corporate tax rate is 20%, what is the shareholder's equity balance at the end of 2013?
- (A) \$812,400
 - (B) \$1,052,400
 - (C) \$1,062,400
 - (D) \$1,112,400
- (19) When one is considering a production constraint decision, the key to maximizing the allocation of constrained resource is to use the
- (A) Unit contribution margins of all products
 - (B) Unit contribution margins per constrained resource per product
 - (C) Unit fixed cost of constrained resource
 - (D) Unit fixed cost per product
- (20) Last month a manufacturing company incurred total manufacturing costs of \$85,000. The balances in its finished good inventory at the beginning and the end of the month were \$0 and \$4,500 respectively. If the gross margin is 50%, what was the amount of sales for the month?
- (A) \$170,000
 - (B) \$161,000
 - (C) \$152,000
 - (D) \$127,500

(TOTAL: 40 marks)

SECTION B

This section consists of **THREE (3)** questions. In your **ANSWER BOOKLET**, indicate the question number clearly. Show all workings where appropriate.

Question 2

The following are selected balances of expenses and revenue accounts before adjusting entries of Issy Pte Ltd for the fiscal year shown. All accounts have normal balances unless otherwise stated.

	Balance as at 31 December 2014
	\$
Cost of Goods Sold ("COGS")	575,000
Depreciation	8,600
Insurance	9,450
Rent	48,000
Salaries	136,000
Sales returns and allowance	47,725
Sales Revenue (all sales on credit)	874,500
Selling and Admin Expenses	45,000

Additional information

- (1) The company borrowed \$80,000 from UOB bank @ 4% p.a. on 1 July 2014.
- (2) A debtor owing \$3,400 was declared bankrupt on 31 December 2014. No entry was made in the books regarding this. Based on an analysis of debtors at 31 December 2014, Issy estimates that the impairment of accounts receivable expense for the year should be \$1,200.
- (3) The company's tax rate is 30%.

Required

- (a) Compute the net income after tax for the fiscal year ended 31 December 2014.
(10 marks)
- (b) If the average finished goods inventory balance is \$38,800 for 2014, compute the inventory turnover ratio and the days to sell inventory (round to nearest 2 decimal places). Comment on Issy's performance for 2014 in this area if last year's ratio was 13 and the 2014 industry average is 16. Provide two possible reasons for the performance in 2014.
(8 marks)

(TOTAL: 18 marks)

Question 3

The following information relates to Biko Ltd for the year ended 31 December 2014.

	\$		\$
Cash received from customers	401,000	Payment to settle debts (principal repaid)	48,000
Cash paid to suppliers and employees	231,000	Proceeds from short term borrowing	53,500
Cash and cash equivalents at 1 Jan 2014	53,500	Proceeds from sale of plant assets	56,500
Dividends paid	23,000	Proceeds from issuing shares	98,500
Depreciation expenses	32,000	Purchases of plant assets	201,000
Interest paid	16,000	Taxes paid	43,500

Required

- (a) Prepare the cash flows statement for Biko Ltd for the period ended 31 December 2014 using the direct method.

(13 marks)

- (b) Wallie Ltd applies a straight line depreciation method for its equipment over 7 years. On 1 January 2015 the firm bought a piece of equipment to replace its old equipment which was sold to the scrap yard for \$500. The new equipment costs \$44,150 and has an estimated residual value of \$3,000. As the equipment could not fit in the doorway of the factory, the firm had to hire a crane for \$850 to lift the equipment through the window on the second floor. No other installation costs were incurred. The equipment was put into use immediately. The old equipment was purchased on 1 July 2011 for \$29,000 and had an estimated residual value of \$1,000.

Provide journal entries to record the purchase of the new equipment, depreciation for the month of January 2015, and the sale of the old equipment. (Narrations are not required).

(9 marks)

(TOTAL: 22 marks)

Question 4

Tour Cycles (“TC”) makes high quality bicycles using titanium frames. Each bicycle retails for \$250, and TC is able to sell all of its production. TC currently manufactures 10,000 bicycles a year and is operating at full capacity. The product cost for the bicycle is determined as follows.

Costs	\$
Direct material (titanium frames make up 80% total costs)	680,000
Direct labour	550,000
Manufacturing overhead (fixed)	66,000
Total	1,296,000
Unit cost	\$129.60

Required

- (a) Compute the breakeven sales (round your answers to the nearest whole number).
(3 marks)
- (b) SINGCOM, a professional road cycling team is interested in buying 600 bicycles from TC at a price of \$200 each. Would you recommend TC to accept the order? (Show all workings and provide justifications for your recommendation).
(6 marks)
- (c) TC’s associate company, BC heard about TC’s special order and has offered to supply the titanium frames (of comparable quality) at \$60 each. TC is also able to obtain the remaining direct material at the same cost per unit as it is using currently. In addition, it can get its workers to do overtime (at 1.5x labour rate), utilizing the same amount of time it takes to assemble a normal bicycle for the special order.

Should TC accept BC’s offer so that it can accept the special order from SINGCOM?
(Provide computations to support your answer)
(7 marks)
- (d) Give TWO (2) qualitative factors that the management of TC should take into consideration when making a decision on outsourcing and accepting the special order in part (b) and (c).
(4 marks)

(TOTAL: 20 marks)

- END OF PAPER -

BU8101 ACCOUNTING: A USER PERSPECTIVE

Please read the following instructions carefully:

- 1. Please do not turn over the question paper until you are told to do so. Disciplinary action may be taken against you if you do so.**
2. You are not allowed to leave the examination hall unless accompanied by an invigilator. You may raise your hand if you need to communicate with the invigilator.
3. Please write your Matriculation Number on the front of the answer book.
4. Please indicate clearly in the answer book (at the appropriate place) if you are continuing the answer to a question elsewhere in the book.