1. The statement of financial position is also known as the income statement.

Answer : False

Explanation : The statement of financial position is known as the balance sheet, not the income statement.

2. The statement of comprehensive income is also known as the income statement.

Answer: True

Explanation : The statement of comprehensive income is a statement that presents revenues, expenses, net income etc.

3. Total assets of the company must be equal with the total liabilities of the company.

Answer : False

Explanation : Total assets must be equal to the combination of total liabilities and total equities.

4. One disadvantage of corporations is that there is separation of ownership and management.

Answer : True

Explanation : This is true as it will lead to a conflict of interest among the management and the company owners.

5. The par value method is allowed in Singapore

Answer : False

Explanation : Singapore is one of the few countries that do not allow par value method.

6. What is not an advantage of corporations?

a) Raising both equity and debt  b) Continuous life c) Limited liability for owners d) Tax free

Answer : D

Explanation :

a) Correct!   b) Correct!   c) Correct!  d) There are other tax policies that will apply to corporations.

7. Kelly & Co. purchased 10 shares on account. Which account is affected in the journal entry?

a) Cash  b) Accounts receivable c) Accounts Payable d) Share Expense

Answer : C

Explanation:

a) Since it is on account, no cash is involved yet until payment is made.

b) There is no cash to be received in future.

c) Correct!

d) There is no such account.

8. Crisis & Co. paid a previous declared dividend. Which of the following accounts is affected in this journal entry?

a) Cash    b) Dividends Receivable  c) Dividends  d) Treasury Shares

Answer : A

Explanation:

a) Correct!

b) Dividends payable is affected, not a receivable.

c) This was already recorded when dividends were declared.

d) There are no shares involved in this case.

9. Kelly & Co. sold 20,000 treasury shares at $15 each which were originally purchased at $10. What is the credit to treasury shares recorded for this journal entry?

a) 20,000 b) 200,000 c) 300,000 d) 0

Answer : B

Explanation:

a) Record the total value of shares, not the number of shares.

b) Correct!

c) Record the value of shares as per purchased price, not selling price.

d) Record the total value of shares.

10.  Kelly & Co. sold 20,000 shares at $5 each which is originally purchased at $10. What is the amount of additional paid in capital recorded in this journal entry, assuming that additional paid in capital had a 0 balance prior to this transaction?

a) 20,000 b) 100,000 c) 200,000 d) 0

Answer : D

Explanation:

a) There is no change in additional paid in capital, since this transaction decreases equity value and there is no additional paid in capital to use up.

b) There is no change in additional paid in capital, since this transaction decreases equity value and there is no additional paid in capital to use up.

c) There is no change in additional paid in capital, since this transaction decreases equity value and there is no additional paid in capital to use up.

d) Correct!

11. Chris & Co. purchased a total value of X ($20,000-$50,000) for 20,000 shares. They then sold the shares at a total value of Y ($50,000-$100,000). What is the amount of additional paid in capital recorded in this journal entry?

Answer : Y - X

Explanation : Additional paid in capital is recorded when there is a gain in selling of shares, whereby the selling price is higher than the initial purchase price.

12. Chris & Co. purchased a total value of X ($50,000-$100,000) for 20,000 shares. They then sold the shares at a total value of Y ($20,000-$50,000). What is the debit to retained earnings recorded in this journal entry, assuming there was no additional paid in capital prior to the transaction?

Answer : X - Y

Explanation : Retained earnings is recorded when there is a need to hold excess losses in selling of shares, whereby the selling price is lower than the initial purchase price.