

### Multiple Choice (30 marks – 54 minutes)

Select the best answer for each of the following multiple-choice questions and enter your answer on the Scantron Sheet. Only one answer will be accepted for each question. There is no penalty for guessing. No account will be taken of any explanations provided.

*Question Nos. 1 to 10 are each worth 1 mark. Question Nos. 11 to 20 are each worth 2 marks.*

1. Retained earnings at the end of the period is equal to:
- (a) retained earnings at the beginning of the period plus profit minus liabilities.
  - (b) assets plus liabilities.
  - (c) profit for the period
  - (d) retained earnings at the beginning of the period plus profit minus dividends.

ANS: D

2. The statement of financial position and statement of changes in equity are related because:
- (a) the total assets on the statement of financial position is reported on the statement of changes in equity.
  - (b) the ending amount on the statement of changes in equity is reported on the statement of financial position.
  - (c) the ending amount on each statement is transferred to the statement of cash flows.
  - (d) both contain information for the corporation.

ANS: B

3. Office equipment is classified on the statement of financial position as:
- (a) a current asset.
  - (b) property, plant, and equipment.
  - (c) shareholders' equity.
  - (d) a long-term investment.

ANS: B

4. The qualitative characteristic that says the value of information should exceed the cost of preparing it is called:
- (a) relevance.
  - (b) understandability.
  - (c) cost constraint.
  - (d) verifiability.

ANS: C

5. The going concern assumption is inappropriate when:
- (a) liquidation appears likely.
  - (b) the business is just starting up.
  - (c) fair values are higher than costs.
  - (d) the business is organized as a proprietorship.

ANS: A

6. The objective of financial reporting is to:
- (a) provide information to the Canada Revenue Agency.
  - (b) provide financial information that is useful to existing and potential investors, lenders and other creditors.
  - (c) comply with Accounting Standards for Private Enterprises.
  - (d) comply with International Financial Reporting Standards.

ANS: B

7. On a classified statement of financial position, current assets are often listed:
- (a) in alphabetical order.
  - (b) with the largest dollar amounts first.
  - (c) in the order in which they are expected to be converted into cash.
  - (d) in the order of acquisition.

ANS: C

8. Which of the following is not a main section of the conceptual framework of accounting?
- (a) The objective of financial reporting
  - (b) The going concern assumption
  - (c) Financial analysis
  - (d) The elements of financial statements

ANS: C

9. For the basic accounting equation to stay in balance, each transaction recorded must
- (a) affect two or fewer accounts.
  - (b) affect two or more accounts.
  - (c) always affect exactly two accounts.
  - (d) affect the same number of asset and liability accounts.

ANS: B

10. The sequence of steps in the transaction recording process is:
- (a) analyze → journal → ledger.
  - (b) journal → analyze → ledger.
  - (c) journal → ledger → analyze.
  - (d) ledger → journal → analyze.

ANS: A

11. An accountant has debited an asset account for \$3,000 and credited a revenue account for \$6,000. What can be done to complete the recording of the transaction?
- Nothing further can be done.
  - Credit a shareholders' equity account for \$3,000.
  - Debit another asset account for \$3,000.
  - Credit another asset account for \$3,000.

ANS: C

12. Collection of a \$1,500 accounts receivable
- increases an asset \$1,500; decreases a liability \$1,500.
  - decreases a liability \$1,500; increases shareholders' equity \$1,500.
  - decreases an asset \$1,500; decreases a liability \$1,500.
  - has no effect on total assets.

ANS: D

13. The Town Laundry purchased \$5,500 worth of laundry supplies on June 2 and recorded the purchase as an asset. On June 30, an inventory of the laundry supplies indicated only \$3,000 on hand. The adjusting entry that should be made by the company on June 30 is
- debit Laundry Supplies Expense, \$3,000; credit Laundry Supplies, \$3,000.
  - debit Laundry Supplies Expense, \$2,500; credit Laundry Supplies, \$2,500.
  - debit Laundry Supplies, \$2,500; credit Laundry Supplies Expense, \$2,500.
  - debit Laundry Supplies, \$3,000; credit Laundry Supplies Expense, \$3,000.

ANS: B

14. At December 31, Zacharias Corp reports Salaries Payable of \$25,000 on its statement of financial position. The next payroll amounting to \$40,000 is to be paid in January. What will be the journal entry to record the payment of salaries in January?
- |                  |        |        |
|------------------|--------|--------|
| Salaries Expense | 40,000 |        |
| Salaries Payable |        | 25,000 |
| Cash             |        | 15,000 |
  - |                  |        |        |
|------------------|--------|--------|
| Salaries Expense | 40,000 |        |
| Cash             |        | 40,000 |
  - |                  |        |        |
|------------------|--------|--------|
| Salaries Expense | 40,000 |        |
| Salaries Payable | 25,000 |        |
| Cash             |        | 65,000 |
  - |                  |        |        |
|------------------|--------|--------|
| Salaries Expense | 15,000 |        |
| Salaries Payable | 25,000 |        |
| Cash             |        | 40,000 |

ANS: D

15. On September 1, Monmouth Microwaves Ltd signed a 9%, five-month note payable for \$9,000. The amount of interest to be accrued at December 31 is
- \$9,810.00
  - \$ 810.00
  - \$ 337.50
  - \$ 270.00

ANS: D

16. A new accountant working for Malawi Limited records \$800 depreciation expense on store equipment at year end as follows:

Depreciation Expense	800
Cash	800

The effect of this entry is to

- (a) adjust the accounts correctly at year end.
- (b) understate expenses on the income statement.
- (c) overstate the carrying amount of the depreciable assets at year end.
- (d) understate the carrying amount of the depreciable assets at year end.

ANS: C

17. At December 31, 2012, before any year-end adjustments, Ubanigi Corp's Insurance Expense account had a balance of \$725 and its Prepaid Insurance account had a balance of \$2,900. It was determined that \$1,500 of the Prepaid Insurance had expired. The adjusted balance for Insurance Expense for the year would be

- (a) \$2,225
- (b) \$1,500
- (c) \$1,125
- (d) \$ 725.

ANS: A

18. McCloud Realty received a cheque for \$21,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$21,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31:

- (a) debit Unearned Rental Revenue, \$3,500; credit Rental Revenue, \$3,500.
- (b) debit Rental Revenue, \$3,500; credit Unearned Rental Revenue, \$3,500.
- (c) debit Unearned Rental Revenue, \$21,000; credit Rental Revenue, \$21,000.
- (d) debit Cash, \$3,500; credit Rental Revenue, \$3,500.

ANS: C

19. On November 1, Ye Olde Gift Shoppe signed a 6%, three-month note payable for \$100,000 to help finance increases in inventory for the Christmas shopping season. Assuming no entries have been made previously for the interest on this note, what is the required adjusting entry for the interest accrued to December 31?

- (a)

Interest Expense	1,000	
Interest Payable		1,000
- (b)

Interest Expense	500	
Interest Payable		500
- (c)

Interest Expense	1,000	
Cash		1,000
- (d)

Interest Expense	1,500	
Interest Payable		1,500

ANS: A

- 20 The Sayonara Corporation purchased a notebook computer for \$3,000 on December 1. The useful life of the notebook computer is estimated to be 5 years. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:
- (a) debit Depreciation Expense, \$600; credit Accumulated Depreciation, \$600.
  - (b) debit Depreciation Expense, \$50; credit Accumulated Depreciation, \$50.
  - (c) debit Depreciation Expense, \$2,400; credit Accumulated Depreciation, \$2,400.
  - (d) debit Office Equipment, \$50; credit Accumulated Depreciation, \$50.

**ANS: B**

PLEASE NOTE THAT ZERO MARKS WILL BE AWARDED IF YOU DO NOT SHOW ALL YOUR COMPUTATIONS FOR THE FOLLOWING QUESTIONS IN PART 2.

**PART 2.**  
**QUESTION 21**

**Part A (6 Marks).**

- June 4 Willem Corporation purchased \$4,000 worth of merchandise, terms 2/10, n/30 from Cate Corporation. The cost of the merchandise to Cate was \$2,600.
- 10 Willem returned \$700 worth of goods to Cate for full credit. The goods had a cost of \$450 to Cate and were placed back into inventory.
- 13 Willem paid the account.

**Instructions**

Prepare the journal entries to record these transactions in Cate's records. Cate uses the perpetual inventory system.

(b) Cate's records

June 4	Accounts Receivable.....	4,000		
	Sales .....		4,000	(1)
4	Cost of Goods Sold.....	2,600		
	Merchandise Inventory.....		2,600	(1)
10	Sales Returns and Allowance.....	700		
	Accounts Receivable .....		700	(1)
10	Merchandise Inventory .....	450		
	Cost of Goods Sold.....		450	(1)
26	Cash .....			
	<del>SALES DISCOUNTS</del>			
	Accounts Receivable (\$4,000 - \$700) .....		3,300	(2)
				7
				<u>6</u>

2234  
3300  
66

**QUESTION 21**

**Part B. (5 Marks)**

XPT Incorporation uses a periodic FIFO inventory system.

On December 31, a physical count reveals 130 units remaining in inventory.

**Instructions**

Using the following information, compute the ending inventory value and the cost of goods sold.

Date	Description.....	Units	Unit Costs
Dec 1	Beginning Inventory .....	100	\$20
5	Purchase.....	500	\$21
11	Sale .....	480	
18	Purchase.....	720	\$22
21	Sale .....	810	
23	Purchase.....	100	\$23

*Handwritten notes: 1420 is written next to the 720 units purchase. A bracket groups the 480 and 810 units sales, with 1290 written next to it.*

ANSWER.

$$\begin{array}{r} 1420 \\ 1290 \\ \hline 130 \end{array}$$

**ENDING INVENTORY**

$$\begin{array}{l} 100 @ \$23 = 2300 \frac{1}{2} \\ 30 @ \$22 = \underline{660 \frac{1}{2}} \end{array} \quad \begin{array}{l} = 2 \\ 2960 \frac{1}{2} \end{array}$$

**OR**

OPENING INVENTORY	2000	100 @ 20	2000
+ PURCHASES	28640	500 @ 21	10500
	<u>30640</u>	690 @ 22	<u>15180</u>
- ENDING INVENTORY	2960		
<b>COST OF GOODS SOLD</b>	<u>\$27680</u>		<u>\$27680</u>

*Handwritten notes: = 2 is written next to the 2960. = 3 is written below the 27680. A circled 5 is at the bottom right.*

**QUESTION 22 (9 Marks)**

The adjusted trial balance of Veejay Corporation at December 31, 2012 included the following selected accounts:

	<u>Debit</u>	<u>Credit</u>
Sales		\$890,000
Sales returns and allowances	\$32,000	
Sales discounts	8,000	
Cost of goods sold	429,000	
Freight out	11,200	
Advertising expense	45,000	
Interest expense	4,500	
Salaries expense	168,000	
Utilities expense	12,500	
Depreciation expense	4,200	
Income tax expense	36,120	
Interest revenue		5,000

**Instructions**

Use the above information to prepare a multiple-step income statement for the year ended December 31, 2012.

VEEJAY CORPORATION  
Income Statement  
Year Ended December 31, 2012

*- 1 if missing*

Sales .....		\$890,000 $\frac{1}{2}$
Less: Sales returns and allowances .....	\$32,000 $\frac{1}{2}$	
Sales discounts .....	<u>8,000 <math>\frac{1}{2}</math></u>	<u>40,000</u>
Net sales .....		850,000 $\frac{1}{2}$
Cost of goods sold .....		<u>429,000 <math>\frac{1}{2}</math></u>
Gross profit .....		421,000 $\frac{1}{2}$ = (3)
Operating expenses		
Salaries expense .....	\$168,000	
Advertising expense .....	45,000	
Utilities expense .....	12,500	
Freight out .....	11,200	
Depreciation expense .....	<u>4,200</u>	
Total operating expenses .....		→ <u>240,900</u>
Profit from operations .....		180,100
Other revenues and gains		
Interest revenue .....	\$5,000 $\frac{1}{2}$	
Other expenses and losses		
Interest expense .....	<u>4,500 <math>\frac{1}{2}</math></u>	<u>500</u>
Profit before income tax .....		180,600 $\frac{1}{2}$ = (2)
Income tax expense .....		<u>36,120 <math>\frac{1}{2}</math></u>
Profit .....		<u>\$144,480</u> = (1)

*6 +  $\frac{1}{2}$  = (3)*

*1  
9  
=*

**QUESTION 23 (5 Marks)**

Broadway Limited had an \$11,200 credit balance in Allowance for Doubtful Accounts at December 31, 2012, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

	\$	Estimated % Uncollectible
Current	375,000	1.5%
1-30 days past due	37,500	4.5%
31-60 days past due	20,000	9%
61-90 days past due	12,500	18%
Over 90 days past due	15,000	45%
Total Accounts Receivable	184000	

Prepare the adjusting entry at December 31, 2012, to recognize bad debts expense.

**ANSWER.**

**Bad Debts Expense**

**Allowance for Doubtful Debts**

6912

6912  $\frac{1}{2}$

= 1

**To adjust the allowance account too the estimated uncollectible**

	\$	Estimated % Uncollectible
Current	375,000	1.50%
1-30 days past due	37,500	4.50%
31-60 days past due	20,000	9%
61-90 days past due	12,500	18%
Over 90 days past due	15,000	45%
Total Accounts Receivable	184000	

= 5625  
= 1687.5  
= 1800  
= 2250  
= 6750

}  $8 \times \frac{1}{2} = 4$

18112.5

**QUESTION 24 (11 Marks)**

Note that the Income Statement has been completed. During the year the company issued \$5000 common shares.

Optimum Corporation  
Adjusted Trial Balance  
December 31 2012

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 22,000	
Accounts receivable.....	30,600	
Merchandise inventory .....	25,950	
Prepaid insurance.....	1,200	
Long-term investments.....	37,000	
Equipment.....	26,800	
Accumulated depreciation—Equipment.....		\$ 16,080
Leasehold improvements.....	42,000	
Accumulated depreciation—Leasehold improvements.....		12,600
Accounts payable.....		34,400
Salaries payable .....		1,210
Interest payable.....		175
Income tax payable.....		1,100
Unearned revenue.....		600
Bank loan payable .....		35,000
Common shares .....		50,000
Retained earnings .....		30,000
Dividends.....	10,000	
Profit for the year.....		14385

Totals .....	<u>\$432.065</u>	<u>\$432.065</u>
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**Instructions**

Using the above Trial Balance, Prepare the Statement of Changes in Equity and the Statement of Financial Position.

Solutions

Optimum Corporation

Statement of Financial Position

December 31, 2012

Assets

Current assets

order  
1/4  
2  
Hoffman

Cash .....	\$22,000	} 4 x 1/2 = 2
Accounts receivable .....	30,600	
Merchandise inventory.....	25,950	
Prepaid insurance .....	<u>1,200</u>	

Total current assets ..... \$ 79,750 1/2

Long-term investments ..... 37,000 1/2

Property, plant, and equipment

Equipment.....	\$26,800	
Less: Accumulated depreciation.....	<u>16,080</u>	\$10,720 ①
Leasehold improvements .....	\$42,000	
Less: Accumulated depreciation.....	<u>12,600</u>	<u>29,400</u> ①

Total property, plant, and equipment ..... 40,120 1/2

Total assets ..... \$156,870 1/2

1  
6  
=

## Liabilities and Shareholders' Equity

### Current liabilities

Accounts payable .....		\$ 34,400
Salaries payable .....		1,210
Interest payable .....		175
Income tax payable .....		1,100
Unearned revenue .....		600
Current portion of <del>bank loan payable</del> <sup>mortgage</sup> .....		<u>5,000</u>
Total current liabilities .....		42,485

### Long-term liabilities

Bank loan payable (\$35,000 - \$5,000) .....		30,000 <sup>1/2</sup>
Total liabilities .....		72,485 <sup>1/4</sup>

### Shareholders' equity

Common shares .....		\$50,000 <sup>1/4</sup>
Retained earnings .....		<u>34,385</u> <sup>1/2</sup>
Total shareholders' equity .....		<u>84,385</u> <sup>1/4</sup>
Total liabilities and shareholders' equity .....		<u>\$156,870</u>

5

RE    30,000  
 + P    14,385  
 -----  
       44,385  
       10,000  
 -----  
       34,385