

**MID-TERM EXAMINATION**  
**Fall 2012**  
**Section A, B, and AA**  
**Saturday October 20<sup>th</sup>, 2012**  
**6:00 p.m. to 9:00 p.m.**

**Duration: 3 hours**

**Instructions**

1. This examination consists of **Four (4) Questions** printed on **seven ( 7 ) pages** including this page. Make sure your copy of the exam is complete before starting.
2. Write all your answers including answers to multiple-choice statements in the **exam booklet**.
3. Read the questions carefully and budget your time wisely. **Show details of all calculations**, (except for Multiple-choice). **IF NO details are given, NO part marks**. Attempt all Questions.
4. This is a closed book examination. However, silent hand-held calculators ***(not programmable and not graphical)*** and standard, **not electronic**, language dictionaries are permitted for foreign students.
5. In **front of the booklet**, write the number in the order that you have answered the questions. Check the exam questions, and place them in order of the ones that you know best.

| Question | Topic   | Time in minutes | Total Marks |
|----------|---|-----------------|-------------|
| 1        | Multiple-choice Pages 2,3 and 4                           | 20              | 14          |
| 2        | Various Entries Page 5                                    | 40              | 24          |
| 3        | Inventory Page 6  | 40              | 27          |
| 4        | Adjusting entries and financial statements. Pages 6 and 7 | 80              | 35          |
| Total    |   | 180             | 100         |

**Question 1 (14 marks, 20 minutes, 14 multiple choices)**

Place the answers in your booklet, NOT in this exam

Since these exam pages will be recycled and not marked. **CHOOSE THE BEST ANSWER IN EACH CASE.**

- 1) Mathew owns an art supplies store. In the initial accounting records, he included his personal computer and all of his personal art supplies. Mathew is violating what principle of accounting?
  - A) Economic entity
  - B) Going concern
  - C) Reliability
  - D) Materiality
  - E) Cost
  
- 2) Which of the following is a **FALSE** statement?
  - A) Revenues are generated from the sale of goods and services.
  - B) Revenue is categorized as part of retained earnings.
  - C) Revenue is categorized as an asset.
  - D) Revenues provide inward flows of assets.
  - E) Revenue is an increase in retained earnings.
  
- 3) Which of the following is a **TRUE** statement?
  - A) Buying something on account decreases total liabilities.
  - B) Selling something on account increases total liabilities.
  - C) Paying off an account increases the total of assets.
  - D) Purchasing office equipment for cash is a shift of assets.
  - E) Retained earnings do not include payments of dividends.
  
- 4) Every entry in the general journal should include all of the following **EXCEPT**:
  - A) the balance of the accounts affected.
  - B) the amounts of debits and credits.
  - C) debits and credits.
  - D) the title of each account affected.
  - E) a brief description of the transaction.
  
- 5) The total dollars in an accumulated depreciation account are:
  - A) divided into the corresponding asset account.
  - B) divided into the corresponding liability account
  - C) subtracted from the corresponding asset account.
  - D) subtracted from the corresponding liability account.
  - E) added to the corresponding asset account.
  
- 6) Dividends paid and net losses are:
  - A) additions to retained earnings.
  - B) subtractions from retained earnings.
  - C) additions to net income.
  - D) subtractions from net income.
  - E) additions to assets.

- 7) Telson Inc. Bought supplies costing \$3,500 and debited supplies expense for the full amount ( cash was credited). At the end of the accounting period a physical count of supplies revealed 2,000 of supplies still on hand. The adjusting journal entry should be:
- A. debit supplies expense \$ 1,500 ; credit supplies \$ 1500
  - B. debit supplies \$ 1,000; credit supplies expense \$ 1,000
  - C. debit office supplies expense \$1000 and credit office supplies \$1000
  - D. debit office supplies \$1500; credit office supplies expense \$1500
  - E. None of the above
- 8) The normal account balances for Transportation-In (also called freight in) , Sales , Sales returns and allowances, and Delivery expense are:
- A. Debit, credit, credit, debit
  - B. Debit, credit,debit,credit
  - C. Debit, credit, credit, credit
  - D. Credit, debit, debit, debit
  - E. None of the above
- 9) Deposits in transit are:
- A) subtracted from the bank balance.
  - B) added to the bank balance.
  - C) added to the book balance.
  - D) not part of the bank reconciliation.
  - E) subtracted from the book balance.
- 10) Discounts allowed for customers who pay their invoices early:
- A) increase the cost of the purchased inventory for customers
  - B) reduce the cost of the purchased inventory for customers
  - C) are called manufacturers' discounts.
  - D) are called cash discounts.
  - E) are called allowances.
- 11) Tayler Corporation purchased merchandise from Brandon Corporation for cash. The journal entry for Tayler Corporation under a periodic inventory system will be:
- A) debit Purchases, credit Accounts Payable -Brandon Corporation.
  - B) debit Purchases; credit Cash.
  - C) debit Inventory; credit Cash.
  - D) debit Inventory; credit Accounts Payable-Brandon Corporation.
  - E) debit Inventory; credit Accounts Receivable-Taylor Corporation.

- 12) The bank recorded a \$56 deposit as \$65. Determine the error amount and if the error is recorded on the book or bank side of the reconciliation.
- A) \$9 added to bank balance
  - B) \$9 subtracted from bank balance
  - C) \$9 added to book balance
  - D) \$9 subtracted from book balance
  - E) \$18 added to bank balance
- 13) A company's current ratio increased from 1.23 to 1.45. What does this mean?
- A) This means that current assets increased and current liabilities increased.
  - B) This means that current assets increased and current liabilities decreased.
  - C) This means that current assets decreased and current liabilities decreased.
  - D) There is not enough information to explain the increase.
  - E) This means that current assets decreased and current liabilities stayed the same.
- 14) ABC Corporation has received an invoice for \$4,500 with terms of 3/15, n/50. If ABC pays the invoice on the seventeenth day, the Cash account will be credited for what value?
- A) 4,500
  - B) 4,635
  - C) 4,365
  - D) 4,503
  - E) 4,600

**Question 2 Various Entries - part A - 14 marks ( 24 marks in all , 40 minutes)**

J Ltd. provides business advisory services and began operations January 1, 2012. The following events occurred during its first month of business.

- Jan. 1 Sold 100,000 Common shares to various investors for \$1,000,000 cash in total.
- Jan. 2 Purchased general office supplies from X Ltd. for \$500 on account.
- Jan. 3 Purchased office equipment for \$5,000 cash.
- Jan. 4 Borrowed \$20,000 from Very Large Bank and signed a two-year note.
- Jan. 5 Provided services to various customers for \$2,100 cash.
- Jan. 6 Provided services to various customers for \$3,800 on account.
- Jan. 7 Paid \$100 cash to X Ltd. as partial payment for the supplies purchased on January 2.
- Jan. 15 Received \$900 cash from some customers for the work done on January 6.
- Jan. 30 Paid a cash dividend of ten thousand dollars to shareholders.
- Jan. 31 Paid \$700 cash for employees' salaries earned in January.
- Jan. 31 Paid \$1,100 cash for the January office rent.
- Jan. 31 Paid \$800 cash for January utilities.
- Jan. 31 Received a \$600 cash deposit from a customer for work that will be performed in February.
- Jan. 31 Paid \$1,100 cash in advance for February office rent.

**Instructions :**

Prepare journal entries in proper form for the transactions that occurred during January. If no journal entry is needed, explain why. There is no need to provide narratives for the entries you make. (14 marks)

**Question 2 Various Entries - part B - 10 marks**

You have been hired by Mr. Paul Rondeau who has asked you to advise him on the impact that a few errors and omission have on the statements.

Analyze the undernoted scenarios and show whether the error that occurred would have overstated, understated or had no effect on year end Dec 31<sup>st</sup>, 2012 Assets, Liabilities, Shareholders Equity, and Net income, respectively. Your answer should therefore show four columns for each scenario. Dollar amounts are not required in your answer. (2 marks each)

- a. The company paid insurance for \$ 3600 in April 1 2012 for the next 12 months. At year end the accountant forgot to do the adjusting entry.
- b. The company received cash from a customer on November 1<sup>st</sup> for \$ 50,000 for a service that would only be rendered to the customer in January 2013. It was accounted for as a Dr to Cash and Cr to Service Revenue in November.
- c. Salary for the last week of December for \$5000 was treated as an expense and fully paid with cash in Dec 2012 , when in fact the pay date is January 5<sup>th</sup> 2013.
- d. There was no depreciation expense recorded for the equipment nor for the building in 2012.
- e. Office supplies beginning balance was \$4,000. \$ 10,000 of office supplies was purchased during the year and debited to Supplies. The remaining supplies on hand on December 31, 2012 were \$ 2,000. The accountant made the adjusting entry Dr Supplies expense and Cr Supplies \$ 9,000.

### Question 3 Inventory and Ch 5 (27 Marks, 40 minutes)

The following transactions for Aqua, Inc. occurred during May:

|               |  |
|---------------|--|
| <u>May 4</u>  | Purchased \$5,400 of merchandise inventory on account from Firerock Tire, terms 3/15, n/45. FOB shipping point. Firerock Tire prepaid the \$125 shipping cost and added the amount to the invoice. |
| <u>May 7</u>  | Purchased \$375 of supplies on account from Office Maxx terms 3/10, n/30, FOB destination  |
| <u>May 9</u>  | Sold \$ 950 (cost, \$250) of merchandise inventory on account to CED, Inc their customer with terms 3/15, n/45   |
| <u>May 11</u> | Paid \$25 freight charges to deliver goods to CED, Inc.  |
| <u>May 13</u> | Returned \$600 of the merchandise inventory purchased on May 4 and receive a credit  |
| <u>May 18</u> | Paid Firerock Tire the amount due from May 4 purchase in full.   |
| <u>May 19</u> | The customer CED, Inc returned \$175 (cost, \$100) of merchandise inventory from the May 9 sale. The reason the customer returned it was that the returned merchandise was in poor condition.      |
| <u>May 20</u> | Purchased \$3,900 of merchandise inventory and paid it cash.   |
| <u>May 21</u> | Received payment in full from CED, Inc for the May sale.   |

Instructions:

Journalize the transactions in good form on the books of the Aqua, Inc. using

- The perpetual inventory system
- The periodic inventory system

### Question 4 (35 marks; 80 minutes)

MDR Inc. has just completed its fourth year of operations. Below is the **unadjusted** trial balance as at December 31, 2012. The accountant will need to make adjusting entries. In so doing, he will need to create the accounts that are not listed below.

|                                     | DR                 | CR                 |
|-------------------------------------|--------------------|--------------------|
| Cash                                | \$112,000          |                    |
| Account receivable                  | 385,300            |                    |
| Inventory                           | 36,000             |                    |
| Prepaid Insurance                   | 3,000              |                    |
| Building                            | 470,000            |                    |
| Accumulated Depreciation – Building |                    | \$20,000           |
| Accounts Payable                    |                    | 70,000             |
| Notes Payable, due Dec. 30, 2015    |                    | 20,000             |
| Unearned Rent                       |                    | 4,800              |
| Common Shares                       |                    | 620,000            |
| Retained Earnings – January 1, 2012 |                    | 165,000            |
| Sales                               |                    | 935,500            |
| Cost of goods sold                  | 590,000            |                    |
| Salary Expense                      | 222,500            |                    |
| Other Expenses                      | <u>16,500</u>      |                    |
|                                     | <u>\$1,835,300</u> | <u>\$1,835,300</u> |

The accountant at MDR Inc. has **not** taken into consideration the following matters:

- a) Salaries of \$2,500 have been earned by employees for the last half of December 2012. Payment by the company will be made on the next payday, which is January 2, 2013.
- b) Interest at 10% per annum on the note payable (maturing Dec 30, 2015) is due to be paid January 31<sup>st</sup> 2013. To date the interest incurred from Feb 1<sup>st</sup> to Dec 31<sup>st</sup> 2012 needs to be recorded.
- c) Part of the building owned by the company was rented to a tenant on November 1, 2012 for six months. The tenant paid in advance for the whole 6 months of rent, which is included in the unadjusted trial balance as Unearned Rent.
- d) Depreciation on the building for 2012 amounted to \$6,000, which was not yet recorded by the accountant.
- e) Dividends of \$60,000 were declared in December 2012, which are payable by MDR Inc. in January 2013.
- f) Prepaid insurance which is reflected in the unadjusted trial balance had been paid in October 1<sup>st</sup>, 2012 for the next 12 months. The entry to reflect the amount of insurance used has not yet been done. You are required to prepare it.

### **Instructions**

- 1- Prepare all the **necessary journal entries** at the end of the year, EXCEPT closing entries. Make use of proper account names in order to receive marks. There is no need to give explanations. ( Hint: you may want to create T accounts to obtain balances So you can calculate your adjusted balances in order to complete requirements 2 and 3) **(9 marks)**
- 2- Prepare in good form and **proper style** a **multi-step income statement** and **Retained Earnings statement** for the year ended December 31, 2012 showing the results after you have made the adjusting entries. ( Hint: Marks are allotted for headings, titles, proper presentation. There are NO income taxes expense in this problem) **(14 marks)**
- 3- Prepare in good **form a partial classified balance sheet** in proper format for the following sections **Assets and Current Liabilities ONLY** as at December 31, 2012. ( Hint : Marks are allotted for headings, order of liquidity ) **(12 Marks)**