

# Sample Midterm Examination

## ADM 2340

### Financial Accounting

**Please note that this exam may not cover the same chapters or materials that you are responsible for in your current course!**

Time: 2 hours

Student Name: \_\_\_\_\_

Student #: \_\_\_\_\_

Section:

Instructions:

1. Answer all questions in this booklet. Booklet is **not** to be removed from the examination room. You may separate the pages but ensure that you put them back together and staple before handing in. **Ensure that you show all supporting calculations.**
2. Limit your answer to the space provided. Indicate if you use the back of a page.
3. The use of standard abbreviations (for example, A/R for Accounts Receivable and COGS for Cost of Goods Sold) is quite acceptable.
4. Budget about 1.5 minutes per mark. **Please do not ask the invigilators questions. Make reasonable assumptions where necessary.**
5. Language dictionaries are allowed.
6. The use of electronic communication devices such as cell phones is strictly prohibited during the exam. Sharing of calculators is also strictly prohibited.
7. **You must sign page 2 of this exam.**

Multiple Choice (Q1-28)	/28
Short Answer (Q29)	/5
Problem (Q30)	/5
Problem (Q31)	/12
Problem (Q32)	/30
Problem (Q33)	/10
<b>TOTAL</b>	<b>/90</b>

**Statement of Academic Integrity:**

The School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

**Statement to be signed by the student:**

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: \_\_\_\_\_

Note:

An examination without this signed statement will not be graded and will receive an exam grade of zero.

## **Multiple Choice (28 marks)**

Choose the best answer for each of the following. Indicate your choice directly on the scantron sheet provided. You are not required to show calculations for this question. Only one answer will be accepted for each question. There is no penalty for guessing.

Multiple Choice - Part A: (Each question is worth 1 mark) (10 marks)

1. The relevance characteristic has the following kinds of value:
  - A. Timeliness and materiality
  - B. Comparability and consistency
  - C. Verifiability and neutrality.
  - D. *Predictive value and feedback value* ♪
  - E. Objectivity
  
2. The reliability characteristic has the following kinds of value:
  - A. Timeliness and materiality
  - B. Comparability and consistency
  - C. Verifiability and neutrality
  - D. Predictive value and feedback value.
  - E. *Objectivity* ♪
  
3. The going-concern concept states:
  - A. *An entity will remain in operation long enough to use existing assets for their intended purposes* ♪
  - B. An entity must divide its business life in one-year life cycles
  - C. A entity must restate its short term investments to fair market value at each year-end in order to remain viable
  - D. An entity must ensure that accounting information is reported at regular intervals over its business life.
  - E. An entity's securities, if traded publicly, must be registered under the provisions of the Sarbanes-Oxley Act during its economic life.
  
4. The accounting basis that recognizes revenue when the customer pays for the goods or services sold is:
  - A. *Cash basis* ♪
  - B. Matching basis
  - C. Accrual basis
  - D. Revenue recognition basis.
  - E. All of the above
  
5. Net assets represent:
  - A. Retained earnings
  - B. Common shares
  - C. Liabilities minus retained earnings
  - D. *Owners equity* ♪
  - E. Assets plus liabilities

6. Which of the following does not result in a credit entry to the account identified?
- A. Increase in shareholders equity
  - B. Recording of interest revenue
  - C. Payment of an account receivable
  - D. *Decrease in shareholders equity ♪*
  - E. Issuance of common shares
7. Which of the following would be included in the non-operating section of a multiple-step income statement?
- A. Cost of goods sold
  - B. Amortization expense
  - C. Bad debts expense
  - D. Insurance expense
  - E. *All of the above would not be included ♪*
8. Which of the following accounts would not appear in a closing journal entry?
- A. Interest revenue
  - B. Dividends
  - C. Retained earnings
  - D. *Salaries payable ♪*
  - E. Cost of goods sold
9. An adjusting journal entry to recognize accrued salaries payable would cause which of the following?
- A. A decrease in expenses and an increase in assets and shareholders' equity
  - B. A decrease in expenses, a decrease in assets, and a decrease in shareholders equity
  - C. An increase in expenses, liabilities, and shareholders equity
  - D. *An increase in expenses and liabilities and a decrease in shareholders equity ♪*
  - E. An increase in expenses, and a decrease in both liabilities and shareholders equity
10. You have determined that a company estimates bad debts expense using the aging of accounts receivable method. If there are no write-offs or recoveries during the accounting period, an estimate of uncollectible receivables results from the aging analysis equals:
- A. Bad debts expense for the period
  - B. *The ending balance in the Allowance for Doubtful Accounts for the period ♪*
  - C. The change in the Allowance for Doubtful Accounts for the period
  - D. Both (b) and (c) above
  - E. Both (a) and (c) above

Multiple Choice - Part B: (Each question is worth 2 marks) (18 marks)

11. Low Company reported current assets of \$54,000 and a current ratio of 1.80. If Low purchased merchandise for \$6,000 on account, the updated current ratio after this transaction (rounded to two decimal places) would be:
- A. 2.33
  - B. 2.17
  - C. 1.87
  - D. 1.83
  - E. 1.67 ♪
12. Jade Wing reported sales for the year in the amount of \$600,000 of which one-half were on credit. The gross profit as a percentage of sales was 40%. The balance of the inventory account at the beginning and end of the year was \$70,000 and \$30,000 respectively. Therefore, Jade Wing's inventory turnover for the year is:
- A. 12.0
  - B. 10.0
  - C. 7.20 ♪
  - D. 4.80
  - E. 4.2857
13. On June 1, 2009, the balance in the accounts receivable account and the allowance for doubtful account for Sam Beagle was \$350,000 and \$8,000, respectively. On June 2, 2009, Same Beagle wrote off \$2,400 of uncollectible accounts. The net carrying value of accounts receivable before and after the write-off was:
- |    | <u>Before</u>                         | <u>After</u> |
|----|---------------------------------------|--------------|
| A. | \$350,000                             | \$347,600    |
| B. | \$342,000                             | \$342,000 ♪  |
| C. | \$342,000                             | \$344,400    |
| D. | \$342,000                             | \$339,600    |
| E. | None of the above answers are correct |              |
14. Lee Company uses straight-line amortization for its depreciable assets. One such asset had a book value of \$408,750 after three years of straight-line amortization were recorded totaling \$191,250. The estimated residual value of the asset is \$90,000. Therefore, what is the asset's estimated useful life?
- A. 6 years
  - B. 8 years ♪
  - C. 12 years
  - D. 15 years
  - E. None of the above answers are correct.

15. Here are some key figures reported by Tollin Enterprises on its December 31, 2008 Balance Sheet:

Total assets (of which 40% are current)	\$4,000
Current liabilities	8000
Bonds payable	1,200
Common shares	1,500
Retained earnings	500
Common shares	<u>500</u>
Total liabilities and shareholders equity	\$4,000

Tollin's debt to equity ratio (rounded) is:

- A. 42%
  - B. 17%
  - C. 60%
  - D. 50% ♪
  - E. 100%
16. Fortune Company uses the aging method to adjust the allowance for doubtful accounts (ADA) at the end of the period. At December 31, 2009 (the company's year-end), the balance in the accounts receivables account was \$245,000 and the credit balance in the ADA was \$4,000 before any adjustments. An analysis of accounts receivables produced the following age groups:

Current	\$150,000
Over 60 days past due	50,000
Over 90 days past due	<u>10,000</u>
	\$210,000

Based on experience, Fortune estimates the percentage of accounts receivables that will prove to be uncollectible within the three groups to be 3%, 6%, and 18%, respectively. Therefore, the balance in the net receivables on the balance sheet date would be:

- A. \$235,700 ♪
  - B. \$239,700
  - C. \$231,700
  - D. \$241,000
  - E. None of the above answers are correct
17. On August 1, 2009, Tusk Corporation sold equipment and accepted an 8-month, 9%, \$5,000 note receivable. Terrier's accounting year-end is November 30. The amount of interest revenue that Terrier should accrue at year-end is:
- A. \$150 ♪
  - B. \$225
  - C. \$300
  - D. \$0
  - E. \$112.50

18. An overstatement of ending inventory in one period results in:
- A. no effect on net income of the next period
  - B. no effect on net income in the current period
  - C. an overstatement of net income in the next period
  - D. *an understatement of net income in the next period* ♪
  - E. an increased in the retained earnings balance after two periods
19. Shipley purchased shares in three companies during the second quarter of 2009. Shipley prepares a set of interim financial statements at the end of every quarter and an annual set of financial statements on December 31. Shown below are Shipley's investments in temporary investments during 2009:

Investments	2nd Qtr.		3rd Qtr.		4th Qtr.	
	Cost	Market	Cost	Market	Cost	Market
Zenon Co. shares	\$65	\$62	\$65	\$63	\$65	\$64
Krypton Ltd. shares	70	65	70	70	70	58
Daclon Inc. shares	27	30	27	30	27	27

At the end of the second quarter, Shipley's interim income statement would show:

- A. A realized loss on sale of temporary investments for \$5
- B. *An unrealized loss on temporary investments for \$5* ♪
- C. An unrealized gain on temporary investments for \$5
- D. No gain or loss related to temporary investments
- E. An unrealized gain on temporary investments for \$1

\*\*\*\* END OF MULTIPLE CHOICE \*\*\*

**Short Answer (5 marks):**

Q 29. (5 marks) Write a short paragraph to answer **one** of the following questions.

a. What is collusion? Provide an example to illustrate your understanding of the concept and discuss how this relates to internal control policies.

Collusion takes place when **two or more individuals work together** in order to circumvent an internal control measure to conduct a fraudulent activity.

Example... this needs to be clear and connect the concepts of collusion and internal control.

b. Discuss the concept of auditor independence and how it relates to Barry Minkow and the ZZZZ Best Carpet Cleaning company.

Auditor independence can be “in fact” or “in appearance”. Independence “in fact” refers to the auditor’s state of mind being objective. Independence “in appearance” refers to the elimination of any conflict of interest.

Barry Minkow manipulated the independence of the auditors by inviting them for dinner, entertaining them, pressuring them with the threat of losing the account, etc.

**Problems (47 marks):**

Q 30. ABC Co. balanced the bank reconciliation at \$14,749 on March 31. At the end of February, ABC had \$2500 in outstanding deposits. During March, the bank statement showed \$65,200 in deposits while there were \$67,500 in deposits recorded in the company's books. There were no outstanding cheques. Also in March, there was \$57 in service charges from the bank and ABC received 2 memos from the bank: the first showing that the bank received a \$450 payment from one of ABC's customers, the second informing ABC of the withdrawal of \$670 for a loan payment. It also became clear that ABC had recorded one of their cheques incorrectly. The cheque was recorded as \$1245, but the correct amount of the cheque was \$2145.

**Required (5 marks):**

Determine the General Ledger cash balance before the bank reconciliation was completed.

GL Balance	x
Less: service charge	(57)
Loan payment	(670)
Error	(900)
Add: customer payment	450
 Adjusted balance	 14749

$$X = 14749 - 450 + 900 + 670 + 57 = 15926$$

Q 31. (12 marks) KLM Construction is building a high-rise apartment complex. It will take 3 years to complete. Total revenues from the job are \$275 million. The expected costs and the expected cash collections are as follows:

	Costs	Cash Receipts
Y1	\$95	\$55
Y2	110	85
Y3	45	125

Required: Calculate the revenues, expenses and profit by completing the following charts in a) the completed contract method, and b) the percentage of completion method.

Year	Revenue	Expenses	Profit
1	0	0	0
2	0	0	0
3	275	250	25
Totals	275	250	25

Year	Revenues	Expenses	Profit
1	104.5  95/250 = 38% 38% x 275 = 104.5	95	9.5
2	121  110/250 = 44% 44% x 275 = 121	110	11
3	49.5  45/250 = 18% 18% x 275 = 49.5	45	4.5
Totals	275	250	25

Q 32. (30 marks)

XYZ Inc. has had the following transactions take place in the month of June.

- Purchased a vehicle for the business for \$23,000 on June 1. XYZ anticipates that they will keep it for 4 years and sell it for \$5000. They paid \$5000 cash and took out a bank loan for the balance. (Record the purchase).
- Purchased \$1200 in office supplies on account during the month of June. XYZ had \$430 in office supplies at the beginning of the month and \$370 in office supplies at the end of the month. (Record the purchase).
- XYZ purchased a short-term investment in GoldCorp. XYZ purchased 3000 shares at \$20 per share on June 3. By the end of the month, the shares of GoldCorp were trading for \$22 per share. (Record the purchase).
- XYZ Inc. had sales of \$32,000 in the month of June. All sales are on account.
- XYZ Inc. wrote off \$1000 for an accounts receivable account that they determined would not be received.
- On June 15, XYZ had a customer who was late on paying their account sign a Note. The customer will have 3 months to pay the \$5000 Note plus 6% annual interest.
- XYZ paid utilities of \$2000 and salaries of \$4000.
- GoldCorp declared a dividend of \$0.10 per share on June 16.

**Required:**

- Record the normal journal entries for each of the above transactions.
- Record any adjusting entries that are required for the above transactions.

a. Vehicle	\$23,000	
Cash		\$5,000
Bank Loan		18,000
To record purchase of vehicle		
b. Office Supplies	1,200	
A/P		1,200
To record purchase of office supplies		
c. Short-term Investment	60,000	
Cash		60,000
To record short-term investment		
d. A/R	32,000	
Sales Revenue		32,000
To record sales		
e. Allowance for Doubtful Accounts	1,000	
A/R		1,000
To record write-off		
f. Note Receivable	5,000	
A/R		5,000
To record account change to N/R		
g. Utilities Expense	2,000	
Salaries Expense	4,000	
Cash		6,000
To record expenses		
h. Dividend Receivable	300	
Dividend Revenue		300
To record dividend from GoldCorp		
i. Amortization Expense	375	
Accumulated Amortization		375
(23000 – 5000)/4 x 1/12		
Office Supplies Expense	1,260	
Office Supplies		1,260
430 + 1200 – 370		
Short-term Investment	6,000	
Unrealized Gain on Investment		6,000
(22 – 20) x 3000		
Interest Receivable	12.50	
Interest Revenue		12.50
5000 x 6% x 1/12 x 1/2		

Q 33. (10 marks)

Shown below are the account balances taken from the unadjusted trial balance of OMG Ltd. at the end of its accounting period, June 30, 2009

OMG Ltd.  
Unadjusted Trial Balance  
June 30, 2009

	<u>Debit</u>	<u>Credit</u>
Cash	\$20,000	
Accounts receivable	5,500	
Inventory	39,000	
Supplies	6,200	
Prepaid rent	1,200	
Equipment	68,000	
Accumulated amortization—equipment		\$ 6,800
Accounts payable		10,800
Income taxes payable		4,200
Common shares		10,000
Retained earnings (June 30, 2008)		40,800
Dividends declared	2,000	
Sales revenue		176,000
Interest income		20,000
Cost of goods sold	47,200	
Amortization expense	6,800	
Wages expense	55,600	
Miscellaneous expense	10,700	
Income tax expense	6,400	
	<u>\$268,600</u>	<u>\$268,600</u>

As the accountant for OMG, you have developed the following additional data for preparing the June 30, 2009 adjusting entries:

- a. Amortization expense for the year, \$2,100
- b. Wages owing to employees, \$1,500
- c. Service revenue accrued, \$2,700
- d. Supplies on hand \$5,800

**Required:**

Based upon the above information, prepare a properly formatted Statement of Retained Earnings for OMG Ltd. for the year ended June 30, 2009. (It is not necessary to record the 2009 adjusting entries)

OMG Ltd.

Statement of Retained Earnings  
For the Year Ended June 30, 2009

Retained earnings, June 30, 2008	\$ 40,800
Add: Net income **	<u>68,000</u>
	108,800
Deduct: Dividends declared	<u>2,000</u>
Retained earnings, June 30, 2009	<u>\$106,800</u>

\*\* Net income:  $(\$176,000 + \$20,000) - (\$47,200 + \$6,800 + \$55,600 + \$10,700 + \$6,400) - (\$2,100 + \$1,500) + \$2,700 - (\$6,200 - \$5,800) =$   
\$68,000

**END OF EXAMINATION**