

**ADM 1340**  
**MID TERM EXAM**  
**Introductory Financial Accounting**  
**Fall 2013**  
**SOLUTIONS**

**Time: 2 hours**

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

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

**Section:**     **A (Prof. Collier)**     \_\_\_\_\_     **B (Prof. Chourou)**     \_\_\_\_\_  
                   **C (Prof. Collier)**     \_\_\_\_\_

**\*READ CAREFULLY\***

**Instructions**

1. This examination comprises 5 questions over 14 pages. Page 14 is a page for rough work and will not be marked. Answer Question No. 1 (multiple choice) directly on the Scantron Sheet provided and the rest of the questions directly in the exam booklet. The exam is **not** to be removed from the examination room.
2. Limit your answer to the space provided. Blank sheets for rough work and supporting calculations are given at the end of each question. You must show, where appropriate, supporting calculations.
3. This exam is out of 66 marks and is 2 hours long. You should budget approximately 1.8 minutes per mark.
4. Please do **not** ask the invigilator or the professor any questions, as they will not be answered. State reasonable assumptions, if you feel they are necessary. Language dictionaries (non-electronic) are allowed if approved by the professor.
5. The use of electronic communication devices such as cell phones is strictly prohibited during the exam. YOU **MUST** BRING PHOTO ID WITH YOU. No photo ID means no exam.

<b>Q1</b>	<b>/ 33</b>
<b>Q2</b>	<b>/ 12</b>
<b>Q3</b>	<b>/ 8</b>
<b>Q4</b>	<b>/ 6</b>
<b>Q5</b>	<b>/ 7</b>
<b>TOTAL</b>	<b>/ 66</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 a final exam grade of zero.

**Question No. 1 (33 marks)**

Select the best answer for each of the following multiple-choice items and enter your answer on the Scantron Sheet provided. Failure to use the Scantron Sheet will result in zero marks for Question No. 1. Only one answer will be accepted for each question. There is no penalty for guessing. No account will be taken of any explanations provided.

**Items 1 to 11 are each worth one mark.**

1. Which of the following is not reported as an asset on a Statement of Financial Position?
  - a. Cash
  - b. Land
  - c. Goodwill
  - d. Share Capital*
  
2. Total assets on a Statement of Financial Position prepared as at a given date must agree with which of the following?
  - a. The sum of total liabilities and profit as shown on the income statement.
  - b. The sum of total liabilities, profit, and share capital.
  - c. The sum of total liabilities and retained earnings.
  - d. The sum of total liabilities and share capital and retained earnings.*
  
3. Which of the following items is not a specific account in a company's chart of accounts?
  - a. Gain on sale of investments
  - b. Net income*
  - c. Revenue
  - d. Unearned revenue
  
4. Which of the following is not one of the conditions that normally must be met for revenue to be recognized according to the revenue principle for accrual basis accounting?
  - a. The price is fixed or determinable.
  - b. Services have been performed.
  - c. Cash already has been collected.*
  - d. Evidence of an arrangement for customer payment exists.
  
5. If a company decided to record a cash outlay as an asset rather than as an expense, how will this decision affect net income in the current period?
  - a. Net income will be higher.*
  - b. Net income will be lower.
  - c. Net income will not be affected by this decision.
  - d. Both assets and liabilities would be overstated.
  
6. Which of the following best describes the entry to be recorded by a law firm when it receives a retainer (fee) from a new client for services to be provided in the future?
  - a. Debit to Accounts Receivable; credit to Legal Services Revenue.
  - b. Debit to Unearned Revenue; credit to Legal Services Revenue.
  - c. Debit to Cash; credit to Unearned Revenue.*
  - d. Debit to Fee Service Receivable; credit to Fee Retainer Received.

**Question No. 1 (continued) (33 marks)**

7. Company A owns a building. Which of the following statements regarding depreciation is false from an accounting perspective?
- a. *As the value of the building decreases over time, it “depreciates”.*
  - b. Depreciation is an estimated expense to be recorded each period during the building’s life.
  - c. As depreciation is recorded, shareholders’ equity is reduced.
  - d. As depreciation is recorded, total assets are reduced.
8. Comprehensive income includes:
- a. Net income and retained earnings.
  - b. Net income, share capital and other comprehensive income.
  - c. *Other comprehensive income and net income.*
  - d. Retained earnings, share capital, net income, and other comprehensive income.
9. On the income statement, the beginning merchandise inventory is added to the cost of goods purchased to determine the:
- a. *Cost of goods available for sale.*
  - b. Income from operations.
  - c. Gross profit.
  - d. Cost of goods available for sale.
10. Under a periodic inventory system, the purchase of merchandise is debited to the:
- a. Merchandise inventory account.
  - b. Cost of goods sold account.
  - c. *Purchases account.*
  - d. Freight-in account.
11. The primary difference between a periodic and a perpetual inventory system is that a periodic system:
- a. Keeps a detailed record showing the inventory on hand at all times.
  - b. Provides better control over inventories.
  - c. Records the cost of goods sold on the date the sale is made.
  - d. *Determines the cost of goods sold at the end of the accounting period.*

**Question No. 1 (continued) (33 marks)**

**Items 12 to 22 are each worth two marks.**

12. On July 1, 2013 Bonita Inc. accepted a 1-year \$30,000 note receivable from a customer. The loan plus 8% interest is to be repaid by the debtor on June 30, 2014. Bonita's year-end is October 31. On its 2013 Income Statement, Bonita will record interest revenue of:
- a. \$0
  - b. \$800**
  - c. \$1,600
  - d. \$2,400
13. The financial statements of Bolero Manufacturing Inc. report net credit sales of \$900,000 and accounts receivable of \$80,000 and \$40,000 at the beginning of the year and end of the year, respectively. The average collection period for Bolero's accounts receivable in days (rounded to the nearest day) is:
- a. 16
  - b. 24**
  - c. 32
  - d. 49

Use the following to answer items 14 and 15:

Consider the following data:

Cash	\$ 10,200	Accounts receivable	\$ 24,000
Accounts payable	32,760	Mortgage payable	20,000
Inventory	17,000	Dividends payable	1,200
Equipment	220,000	Temporary investments	6,400
Long-term notes payable	50,000	Accumulated Amortization	100,000
Common shares	40,000	Retained earnings	13,440
Prepaid rent	1,600	Salaries payable	12,000

The mortgage payable is assumed to be long term in nature.

14. Current assets amounted to:
- a. \$59,960
  - b. \$59,200**
  - c. \$52,800
  - d. \$51,200
15. Current liabilities amounted to:
- a. \$65,960
  - b. \$85,960
  - c. \$33,960
  - d. \$45,960**
16. If a \$20,000 sale was made on September 6, 2013 with terms 3/10 net 45, and if collection was made on September 17, the amount collected is:
- a. \$19,400
  - b. \$19,600
  - c. \$20,000**
  - d. \$20,600

**Question No. 1 (continued) (33 marks)**

17. During the current year, Forrester Limited sold \$1,000,000 in goods that cost \$750,000. Cash and credit sales were \$400,000 and \$600,000, respectively. Forrester collected \$500,000 of the credit sales during the year. What amount of revenue should Jamul recognize for the year under the revenue recognition principle?
- \$1,000,000*
  - \$500,000
  - \$400,000
  - \$250,000
18. Net sales are \$400,000 and cost of goods sold is \$310,000. If operating expenses are \$58,000, other revenues and gains are \$10,000, and income tax expense is \$8,000, the gross profit and profit margin, respectively, are:
- 7.5% and 10.0%.
  - 8.0% and 22.5%.
  - 22.5% and 10.0%.
  - 22.5% and 8.5%.*
19. A company purchased a depreciable asset for \$40,000 on July 1, 2012. The estimated useful life of the asset is 5 years. If the company uses straight-line depreciation, what is the balance in the accumulated depreciation account and what would the carrying amount of the asset be on December 31, 2013?
- the accumulated depreciation would be \$16,000 and the carrying amount would be \$24,000.
  - the accumulated depreciation would be \$16,000 and the carrying amount would be \$56,000.
  - the accumulated depreciation would be \$12,000 and the carrying amount would be \$52,500.
  - the accumulated depreciation would be \$12,000 and the carrying amount would be \$28,000.*
20. At December 31, 2012, Zaf Incorporated reported salaries payable on its SFP in the amount of \$25,000. 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, 2013?
- 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*
21. A \$2,200 debit to salary expense was incorrectly posted as a credit of \$2,200 to salary expense. What is the effect on the trial balance and on salary expense?
- No effect on the trial balance and salary expense is understated by \$2,200.
  - The debit column of the trial balance is \$2,200 too high and salary expense is overstated by \$2,200.
  - No effect on the trial balance and the salary expense is understated by \$4,400.
  - The debit column of the trial balance is \$4,400 too low and salary expense is understated by \$4,400.*

**Question No. 1 (continued) (33 marks)**

22. Pumping Iron Ventures (PIV) is an exercise club. Members may join at any time during the year but must pay for a 12-month membership at the time of joining. The membership fees paid are initially recorded in the unearned membership fees account. Selected information from the unearned membership fees account of PIV for 2012 appears below:

**Unearned Membership Fees T-Account**

	120,000 Balance January 1, 2012
	390,000 credit entries during 2012
	<hr/>
	180,000 Balance December 31, 2012

The amount of fees received and the amount of fees earned, respectively, by PIV in 2012 is:

- a. \$510,000 fees received and \$330,000 fees earned
- b. \$390,000 fees received and \$330,000 fees earned**
- c. \$510,000 fees received and \$180,000 fees earned
- d. \$390,000 fees received and \$180,000 fees earned

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

**Question No. 2. (12 marks)**

Presented below are the Unadjusted Trial Balance and Adjusted Trial Balance for Cassie Corporation on December 31, 2013.

	Unadjusted Trial Balance		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.
Cash	\$3,000		3,000	
Accounts receivable	4,200		5,850	
Prepaid rent	4,950		3,450	
Equipment	27,000		27,000	
Accumulated depreciation— Equipment		1,950		2,250
Accounts payable		4,050		4,050
Notes payable		15,000		15,000
Interest payable				180
Salaries payable				1,350
Unearned revenue		6,690		6,540
Common shares		10,800		10,800
Dividends	4,800		4,800	
Service revenue		12,000		13,800
Salaries expense	5,790		7,140	
Rent expense	750		2,250	
Depreciation expense— Equipment				300
Interest expense				180
<b>Totals</b>	<b>50,490</b>	<b>50,490</b>	<b>53,970</b>	<b>53,970</b>

**Required:**

Prepare, where required, the adjusting entries that explain the changes in the account balances from the unadjusted trial balance to the adjusted trial balance. Note: You must provide explanations for each adjusting entry.

Answer:

<i>Accounts Receivable</i> .....	<i>1,650</i>	
<i>Service Revenue</i> .....		<i>1,650</i>
<i>(To record revenue earned but not yet collected)</i>		
<i>Rent Expense</i> .....	<i>1,500</i>	
<i>Prepaid Rent</i> .....		<i>1,500</i>
<i>(To record expiration of prepaid rent)</i>		
<i>Depreciation Expense—Equipment</i> .....	<i>300</i>	
<i>Accumulated Depreciation—Equipment</i> .....		<i>300</i>
<i>(To record depreciation expense)</i>		
<i>Salaries Expense</i> .....	<i>1350</i>	
<i>Salaries Payable</i> .....		<i>1350</i>
<i>(To record salaries owed, not yet paid)</i>		
<i>Interest Expense</i> .....	<i>180</i>	
<i>Interest Payable</i> .....		<i>180</i>
<i>(To record accrued interest payable)</i>		
<i>Unearned Revenue</i> .....	<i>150</i>	
<i>Service Revenue</i> .....		<i>150</i>
<i>(To record revenue earned)</i>		

**Question No. 3. (8 marks)**

A mobile phone company has the following information pertaining to its inventory for September 2013:

	Units	Unit cost
Opening inventory	2,000	\$100
Purchase 1	1,200	80
Sale 1	(900)	
Purchase 2	2,200	106
Sale 2	(2,100)	
Ending inventory	<u>2,400</u>	

**Required: (You must show all supporting calculations)**

- If the company uses the FIFO method under a periodic inventory system, what would be the cost of ending inventory for September 2013? (2 marks)
- If the company uses the weighted-average method under a periodic inventory system, what would be the cost of goods sold for September 2013? (2 marks)
- If the company uses the moving average method under a perpetual inventory system, what would be the cost of ending inventory for September 2013? (4 marks)

Answer:

a.

$$\text{Cost of ending inventory} = (200 \times 80) + (2,200 \times 106) = \$249,200$$

b.

$$\text{COGAS / units available for sale} = (2,000 \times 100 + 1,200 \times 80 + 2,200 \times 106) / (2,000 + 1,200 + 2,200) = \$98.00$$

$$\text{COGS} = 98 \times 3,000 = \$294,000$$

c.

	Units	Unit cost	Total cost
Opening inventory	2,000	100	200,000
Purchase 1	1,200	80	96,000
Balance	3,200	92.5	296,000
Cost of sale 1	(900)	92.5	(83,250)
Purchase 2	2,200	106	233,200
Subtotal	4,500	99.1	445,950
Cost of sale 2	(2,100)	99.1	(208,110)
Ending inventory	2,400	99.1	237,840

**Question No. 4. (6 marks)**

Company XYZ is preparing its financial statements for the year ended December 31, 2012. A summary of XYZ's accounts receivable sub-ledger shows the following information:

Days outstanding from invoice date	0-30 days	31-90 days	>90 days	Total
Balance outstanding, Dec 31, 2012	11,000,000	5,000,000	500,000	16,500,000
Estimated percentage uncollectible	1.2%	4%	10%	

Accounts written off during 2012	\$40,000
Collections of accounts written off in prior years	2,000
Allowance for doubtful, Jan 1, 2012	250,000

**Required: (Narrative explanations are not required)**

- Calculate the amount of bad debts expense required for 2012 using the allowance method. (2 marks)
- Prepare the journal entry to record bad debts expense for 2012. (2 marks)
- Prepare the journal entry that was used to record write-offs during 2012. (2 marks)

Answer:

a.

*From aging: ADA = \$382,000*

*BDE=?      \$250,000 - \$40,000 + \$2,000 + BDE = \$382,000*

*BDE = \$170,000*

b.

<i>Dr. Bad debts expense</i>	<i>170,000</i>	
<i>Cr. Allowance for doubtful accounts</i>		<i>170,000</i>

c.

<i>Dr. Allowance for doubtful accounts</i>	<i>40,000</i>	
<i>Cr. Accounts receivable</i>		<i>40,000</i>

**Question No. 5. (7 marks)**

Presented below are selected transactions for Variety Corporation during September 2013.

- Sold merchandise for \$1000, terms 3/10, n/30. The merchandise sold cost \$500.
- Purchased merchandise for \$4,500, terms 2/10, n/30.
- Paid freight charges of \$100 in cash on items purchased on September 2.
- Received payment from for sale of September 1.
- Paid for the September 2 purchase.

**Required: (Narrative explanations are not required)**

Prepare journal entries to record the above transactions for Variety Corporation, assuming a perpetual inventory system is used.

**Question No. 5. (continued) (7 marks)**

Answer:

1	Accounts Receivable	1,000	
	Sales		1,000
	Cost of Goods Sold	500	
	Merchandise Inventory		500
4	Merchandise Inventory	4,500	
	Accounts Payable		4,500
7	Merchandise Inventory	100	
	Cash		100
10	Cash (\$1000 x 97%)	970	
	Sales Discounts (\$1000 x 3%)	30	
	Accounts Receivable		1,000
11	Accounts Payable	4,500	
	Merchandise Inventory (\$4,500 x 2%)		90
	Cash (\$4,500 x 98%)		4,410