CONCORDIA UNIVERSITY **FINANCIAL ACCOUNTING**
DEPARTMENT OF ACCOUNTANCY **COMM 217 ALL SECTIONS**

MIDTERM EXAMINATION (REGULAR)
FALL 2013

Question 1 (27 marks):

1. C
2. C
3. C
4. C
   Shareholders' Equity = Share Capital ($605,000 + $27,500) + Retained Earnings ($492,000 + $92,000 - $15,200).
5. C
6. B
7. C
8. B
9. C
10. A
    Gross profit percentage = {(Net Sales - COGS)/Net Sales}* 100
    Coca Cola: {(18.8 - 5.6)/18.8}* 100 = 70.2%
    PepsiCo: {22.3 - 9.3)/22.3}*100 = 58.3%
11. C
12. B
13. D
    (6000 + 1000 + 2000) - 1,000 = 7000 supplies used.
14. C
    Unadjusted balance per books = $12,956.73 - $2,112.19 + $654.19 = $11,498.73.
15. B
    Asset turnover ratio = Sales revenue/Average total assets
    = 0.9/ ((16 + 20)/2)
    = 0.9/18 = .05
16. D
17. B
18. C

Question 2 (14 marks; 24 minutes):

Part A: Recording Transactions (6 Marks)

a. Prepaid Rent …………………………………………………	24,000	
Cash …………………………………………………………		24,000
b. Machinery …………………………………………………	10,000	
Cash …………………………………………………………		10,000
c. Inventories ………………………………………………..	2,000,000	
Trade Payables …………………………………………	2,000,000	
d. Trade Receivables ……………………………………………	1,000,000	
Sales Revenues …………………………………………		1,000,000
Cost of Goods Sold ………………………………………...	700,000	
Inventories ………………..………………………………		700,000
e. Cash ………………………………………………………	120,000	
Deferred Revenues ……………………………………		120,000

Part B: Closing Entries (4 Marks)

Sales Revenue ……………………………………………….	200,000	
Sales Discounts …………………………………….....		10,000
Sales Returns and Allowances …………………………		5,000
Income Summary ……………………………………….		185,000
Income Summary …………………………………………….	128,000	
Cost of Goods Sold …………………………………….		120,000
Operating Expenses …………………………………….		5,000
Interest Expenses ……………………………………..…		3,000
Income Summary …………………………………………….	57,000	
Retained Earnings …………………………………….....	57,000	

Part C: Correcting Erroneous Journal Entries (4 Marks)

a. Truck ……………………………………..	30,000	
Share Capital ……………………………………….….....		30,000
b. Cash ……………………..	100,000	
Loan Payable (or Notes Payable)..………………………...		100,000

c. No correction is required, because Mary Pumpkin won’t start her job until 2014.

d. Depreciation Expense ……………………	3,000	
Accumulated Depreciation ……. ………………………...		3,000

Question 3 (36 marks; 72 minutes):

Req. 1.

Dividends (or Retained earnings)...	15,000	
Dividends Payable		15,000

150,000 x $.10 = $15,000

Cash...	3,000	
Deferred Revenue..		3,000
Wages Expense...	4,000	
Wages Payable ………...		4,000
General and Administrative Expenses*......................................	11,000	
Small Tools ………...		11,000

($20,000 – $9,000) = $11,000

*Small Tools Expense or Cost of Goods Sold is acceptable.

Interest Expense...	60,000	
Interest Payable ….……...		60,000

$1,000,000 x .06 = $60,000

Depreciation Expense..	10,000	
Accumulated Depreciation ………...................................		10,000

($102,000 – $2,000) / 10 = $10,000

Bad Debt Expense	16,000	
Allowance for Doubtful Accounts		16,000

$2,000,000 x .80 x .01 = $16,000

Income Tax Expense	75,000	
Income Tax Payable		75,000

- Refer to the income statement for calculation.

Req. 2

Packers Ltd.
Income Statement
For the Year Ended December 31, 2012

Sales revenue	$2,000,000	
Less: sales returns and allowances	100,000	
Net sales	1,900,000	
Cost of goods sold	1,000,000	
Gross margin/profit	900,000	
Operating expenses		
General and administrative expenses	99,000	($88,000 + $11,000)
Wages expense	360,000	($356,000 + $4,000)
Depreciation expense	10,000	
Bad debts expense	16,000	
Total operating expenses	485,000	
Operating income	415,000	
Other revenues and expenses		
Rent revenue	20,000	
Profit before interest and income taxes	435,000	
Interest expense	(60,000)	
Profit before income taxes	375,000	
Income tax expense	75,000	($375,000 x .20)
Profit	$300,000	

Earnings per share (EPS) $2.00 per share ($300,000 / 150,000)

Req. 3

Packers Ltd.
Statement of Financial Position
As at December 31, 2012

Assets	
Current Assets	
Cash (see below)	$ 8,000
Trade receivables	75,000
Less: Allowance for Doubtful Accounts	(16,000)
Inventory	200,000
Small tools	9,000
Total current assets	276,000
Land	1,400,000
Equipment	102,000
Less: Accumulated depreciation (see below)	(60,000)
Total Assets	$1,718,000
Liabilities and Shareholders' Equity	
Current Liabilities	
Trade payables	$ 45,000
Deferred revenue	3,000
Wage payables	4,000
Interest payable	60,000
Income taxes payable	75,000
Dividends payable	15,000
Total current liabilities	202,000
Note payable, 6%, due December 31, 2020	1,000,000
Total liabilities	1,202,000
Shareholders' Equity	
Common shares (150,000 shares outstanding)	150,000
Retained earnings (See below)	366,000
Total shareholders' equity	516,000
Total Liabilities and Shareholders' Equity	$1,718,000

Cash =$5,000 + $3,000 = $8,000.
Accumulated Depreciation =$50,000 + $10,000 = $60,000.
Retained earnings = $81,000 + $300,000 - $15,000 = $366,000.

Question 4 (23 marks) **Applicable if Sales Returns are related to March 28 transaction.**

Req. 1

a. Trade Receivables ………………………….… ….	800	
Sales Revenue ……………………………….		800
b. Sales Returns and Allowances ..……………..………..	150	
Trade Receivables …………………………..…..		150
c. Cash …………………………………………………	2,328	
Credit Card Discounts.…………………………..	72	
Sales Revenue ……………………………..…...		2,400
d. Cash ……………………………………………….	1,134	
Sales Discounts ……………………..………..….	16*	
Trade Receivables …………………………….		1,150

*Sales discounts = ($800) x 0.02 = 16

*Trade Receivables = ($800 + 500 - 150) = 1,150

Or

d. Cash √………………………………………………	1,137	
Sales Discounts √……………………..………..….	13*	
Trade Receivables √…………………………….		1,150

*Sales discount = ($800 - 150) x 0.02 = 13 , if the payment relates to the sale transaction on March 28.

e. Allowance for Doubtful Accounts …………………	1,500	
Trade Receivables ……………………..…….		1,500
f. Trade Receivables ……………………..………….	3,000	
Cash ……………………..………………………..	3,000	
Sales Revenue …………………………….…...		6,000
g. Trade Receivables ……………………..………….	500	
Allowance for Doubtful Accounts ………………		500
Cash ……………………..………………….…….	500	
Trade Receivables …………………………..….		500

Req. 2

The desired ending balance of Allowance for Doubtful Accounts = [$3,000[1] x 10% + ($8,500[2] – 500[3] – 1,500[4]) x 20%] = $1,600

Bad debt expense= $500[5] – 1,500[4] + 500[6] + X = 1,600 → Bad debt expense = $2,100

Bad Debt Expense ………………………………..	2,100	
Allowance for Doubtful Accounts ………..		2,100

Note:
1. Outstanding trade receivables from Patel.
2. Balance of Trade Receivables as of March 1, 2013.
3. Outstanding trade receivables from Andrew (related to the purchase made on January 10, 2013).
4. Balance of Trade Receivables written-off on April 14, 2013.
5. Balance of Allowance for Doubtful Accounts as of March 1, 2013.
6. Amount of Trade Receivables recovered on May 30, 2013.

Req. 3

Balance of Net Credit Sales = ($95,500[1] + 800[2] – 150[3] – 16[4] + 3,000[5]) = $99,134.
Bad Debt Expense = $99,137 x .01 = $991.34.
Or
Balance of Net Credit Sales = ($95,500[1] + 800[2] – 150[3] – 13[4] + 3,000[5]) = $99,137.
Bad Debt Expense = $99,137 x .01 = $991.37.
If the sales discount related to Andrew's purchase on March 28, 2013

Note:
1. Balance of Net Credit Sales as of March 1, 2013.
2. Credit sales to Andrew on March 28, 2013.
3. Returns from Andrew on March 29, 2013.
4. Sales discount related to Andrew's purchase on March 28, 2013
5. Credit sales to Patel on April 25, 2013.

O'Reily would report a lower bad debt expense should it use the percentage of credit sales method to estimate bad debt expense.

Req. 4

Trade Receivable Turnover = Net Credit Sales/Average Net Trade Receivable

Net Credit Sales = $ 99,134 or $99,137 (from Requirement 3)
Net Trade Receivable, beginning = $8,500 (as of May 31, 2012)
Net Trade Receivable, ending = ($3,000 + 8,500 – 500 – 1,500)[1] - $1,600[2] = $7,900
1. Ending balance of Trade Receivables. (see Requirement 2)
2. Ending balance of Allowance for Doubtful Accounts. (see Requirement 2)

Trade Receivables Turnover = 99,134 / [(8,500 + 7,900) / 2] = 12.09 (Using 99,137 as the numerator results in a same answer after rounding). The Receivables turnover ratio reflects how many times receivables are recorded and collected during an accounting period. In 2012, O'Reily recoded and collected trade receivables 12 times. O'Reily's ability to collect receivables is very close to the stated credit terms (30.2 days versus 30 days, as per credit terms).