

**MIDTERM EXAMINATION (REGULAR)
WINTER 2015**

Name: _____ ID: _____

Duration: 3 hours

Instructions (very important):

1. This examination paper consists of **8 pages including this page**. Please make sure your copy has all pages before commencing to write.
2. Make sure that your FULL name (last name first), Student ID and Section Letter are on the three documents: computer input sheet, answer booklet and examination paper.
3. You must answer the multiple choice questions by using the **computer input sheet**; darken the letter you choose **in pencil** on the computer input sheet. Write all your answers to the other questions in the **examination answer booklet in ink**. You may answer the questions in any order you prefer. **Only the answers on the computer input sheet and in the examination booklet will be graded.**
4. Read the questions carefully and budget your time wisely.
5. Show all calculations on the examination booklet, and omit narratives for journal entries. Using abbreviated account names, headings, subheadings, totals and subtotals is not recommended.
6. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language (not electronic) dictionary are permitted.
7. **Invigilators will not answer questions.** If you think there is an **error** in the question, ask your instructor when he/she visits the exam room.
8. Return the exam along with the computer input sheet and answer booklet(s) when you have finished.

Question	Topic	Total Marks
1	Multiple choice	24
2	Journal entries and financial statement preparation	49
3	Accounting for receivables and bad debts	27
	Total	100

Question 1 (24 marks; 40 minutes): *Multiple Choice*

For each of the following multiple choice question, choose the letter that corresponds to the best answer, and show your answer on the computer input sheet. Each correct answer is worth 1.5 marks.

1. Shareholders' equity can be described as claims of
 - a) Creditors on total assets.
 - b) Owners on net assets.
 - c) Customers on total assets.
 - d) Debtors on total assets.

2. Which one of the following is not a qualitative characteristic of useful accounting information according to the IFRS conceptual framework?
 - a) Relevance
 - b) Faithful Representation
 - c) Prudence
 - d) Comparability

3. Which of the following organizations is least likely to have a liability called Deferred Revenue?
 - a) An insurance company
 - b) A retailer
 - c) A magazine subscription company
 - d) A university or a college

4. Accrued expenses are
 - a) Paid and recorded in an asset account before they are used or consumed.
 - b) Paid and recorded in an asset account after they are used or consumed.
 - c) Incurred but not yet paid or recorded.
 - d) Incurred and already paid or recorded.

5. Under the allowance method for uncollectible accounts
 - a) The net realizable value of trade receivable is greater before an account is written off than after it is written off.
 - b) Bad Debts Expense is debited when a specific account is written off as uncollectible.
 - c) The net realizable value of trade receivable is the same before and after an account is written off.
 - d) The account Allowance for Doubtful Accounts is closed each year to Income Summary.

6. Which of the following activities does not violate the revenue recognition principle?
 - a) Recording revenue in December 2014 for units manufactured but not yet sold to customers
 - b) Recording cash received in advance from customers as revenue when the product is not yet shipped
 - c) Not recording interest earned in 2014 until the cash is received in 2015
 - d) Recording cash received in advance from customers as a liability when the product is not yet shipped.

7. What usually happens when the actual earnings reported exceed the expected earnings for a company?
 - a) There is no share price reaction because earnings forecasts almost never reflect actual results.
 - b) It causes an increase in the share price.
 - c) It causes a decrease in the share price.
 - d) The direction of the change in market price depends on the difference between actual and expected earnings.

8. Brown Corporation reported the following amounts at the end of the first year of operations, December 31, 2014: share capital \$20,000; sales revenue \$95,000; total assets \$85,000, total liabilities \$35,000, and no dividends. What would shareholders' equity and total expenses be?
 - a) Shareholders' equity, \$50,000 and expenses \$65,000.
 - b) Shareholders' equity, \$60,000 and expenses \$75,000.
 - c) Shareholders' equity, \$80,000 and expenses \$40,000.
 - d) Shareholders' equity, \$80,000 and expenses \$85,000

9. In 2014, T Co. reported a receivables turnover ratio of 11.1 and their competitor, WWW Co., reported a ratio of 4.6. Which of the following is true?
 - a) T Co. needs to decrease their ratio in order to improve collection time.
 - b) WWW Co. has done a better job of collecting their receivables than T Co.
 - c) WWW Co. needs to focus on improving their credit and collection process.
 - d) All of the statements are true.

10. On April 1, 2014, a premium of \$1,800 on a two-year insurance policy on equipment was paid. On March 31, 2015, end of the fiscal year, the financial statements for 2014, would report which of the following?
 - a) Insurance expense, \$0; Prepaid insurance \$1,800.
 - b) Insurance expense, \$675; Prepaid insurance \$1,225.
 - c) Insurance expense, \$900; Prepaid insurance \$900.
 - d) Insurance expense, \$1,800; Prepaid insurance \$0.

11. The assumption that a business enterprise will not be sold or liquidated in the near future is known as the
- Economic entity assumption.
 - Monetary unit assumption.
 - Conservatism assumption.
 - None of these
12. During 2014, Thomas Company recorded bad debt expense of \$15,000 and wrote off an uncollectible trade receivables amounting to \$5,000. Assuming a January 1, 2014, credit balance in the Allowance for Doubtful Accounts of \$10,000, the December 31, 2014, balance in the Allowance account would be which of the following?
- \$5,000
 - \$15,000
 - \$20,000
 - \$25,000
13. Which of the following errors, each considered individually, would cause the trial balance to be out of balance?
- A payment of \$148 to a creditor was posted as a debit to Accounts Payable and a debit of \$148 to Cash.
 - Cash received from a customer on account was posted as a debit of \$350 to Cash and a credit of \$350 to Accounts Payable.
 - A payment of \$59 for supplies was posted as a debit of \$95 to Supplies and a credit of \$95 to Cash.
 - A transaction was not posted.
14. Confections Ltd. announces that its gross profit rose 5% and its net earnings decreased. Which of the following statements is true?
- This is not possible given that net earnings are based on gross profit.
 - Other expenses likely rose by more than 5%.
 - Other expenses likely decreased.
 - Sales revenue must have decreased.
15. On the April 30 bank reconciliation, a deposit made by a company to its bank account on April 18 will appear as a(n)
- addition to the balance per books.
 - deduction from the balance per books.
 - deduction from the balance per bank.
 - this will not affect the current period's bank reconciliation.
16. If a cheque correctly written and paid by the bank for \$521 is incorrectly recorded on the company's books for \$251, the appropriate treatment on the bank reconciliation would be to
- add \$270 to the balance per bank.
 - add \$270 to the balance per books.
 - deduct \$270 from the balance per books.
 - deduct \$270 from the balance per bank.

Question 2 (49 marks; 95 minutes): *Journal Entries and Financial Statements*

Note: There is no penalty for “carry-over” errors. Budget your time wisely.

Desktop Lighting Inc., is a retailer of specialty lighting for offices. Below is a list of accounts as at September 1, 2014. Each account has a "normal" debit or credit balance, as the term is defined in the textbook. The Company’s fiscal year ends on September 30.

Account	Balance
Accumulated Depreciation-Building	\$112,875
Accumulated Depreciation-Equipment	56,625
Advertising Expense	3,000
Allowance For Doubtful Accounts	11,625
Bank Loan *	108,000
Building	1,500,000
Cash	543,500
Cost of Sales	739,100
Equipment	375,000
Interest Expense	2,700
Loss on Sale of Investments	75,000
Merchandise Inventory	100,000
Prepaid Income Taxes	6,500
Prepaid Insurance	28,500
Rent Revenue	3,600
Retained Earnings - October 1, 2013	1,097,875
Sales Returns and Allowances	25,375
Sales Revenue	1,881,625
Share Capital (100,000 shares)	1,243,950
Trade Payable	206,625
Trades Receivable	625,000
Wage Expense	699,125

* *One-year bank loan dated Feb 1, 2014. Interest of 5 percent is paid semi-annually on July 31 and January 31.*

During the month of September 2014, the only following transactions occurred:

Sept. 1: Purchased equipment at a cost of \$225,000; the company paid one quarter of the cost in cash and signed a note payable in equal installments over three years commencing September 1, 2015 for the remaining balance. The annual interest rate on the note payable is 7%.

Sept. 3: Received \$80,000 cash from two new investors; each was issued 2,000 shares.

Sept. 12: Sold merchandise for \$65,000 on account. The cost of products sold was \$26,000.

Sept. 18: Shareholder Louis Leclerc paid \$27,500 from his own cash for a vacant lot for his personal use

Sept. 23: Received an invoice of \$1,260 for 2015 membership fees covering the year ending September 30, 2015. Payment will be made the first week in October 2014.

Below is additional information available to Desktop Lighting's accountants on September 30, 2014, the end of Desktop Lighting's fiscal year.

- a) A portion of Desktop Lighting's building has been converted into a snack bar that has been rented to Ono Food Corp. since April 1, 2013, at a rate of \$7,200 per year payable each April 1. The first payment was paid on April 1, 2014.
- b) For fiscal year 2014, depreciation expense of the building was \$37,500, and depreciation expense of the equipment (both the old and the new equipment) was \$18,750.
- c) Desktop Lighting's employees get paid on the 1st and the 16th of every month, for a total amount of \$30,000 per pay. The next pay-day is October 1st 2014.
- d) Cash dividends of \$1.75 per share were declared on September 30, 2014 and will be paid on October 20, 2014.
- e) The balance of the account Advertising Expense includes \$1,500 that represents radio spots to commence in October 2014.
- f) On May 1, 2014 Desktop Lighting renewed an insurance policy at the same price as last year, and debited \$18,000 to Prepaid Insurance. The insurance policy would cover the company for one year commencing May 1, 2014.
- g) Desktop Lighting estimates that 7% of the Trade Receivable balances on September 30, 2014, will be uncollectible. On September 30, 2014 the bookkeeper incorrectly credited Sales Revenue for a receipt of \$1,000 on account. This error has not yet been corrected on September 30.
- h) The company is subject to an income tax rate of 25%. Income taxes are due December 15, 2014.

Required:

1. Prepare the journal entries needed to record the above transactions that occurred in September 2014. If an event does not require a journal entry, please write "No Entry" and explain the reason why. Skip a line between entries, and omit narratives. Round your calculations to the nearest dollar amount. **(7 marks)**
2. Prepare the yearly adjusting journal entries as at September 30, 2014. Skip a line between entries, and omit narratives. Round your calculations to the nearest dollar amount. **(18 marks)**
3. Prepare, in proper form, a multi-step statement of earnings for the year ended September 30, 2014. **(15 marks)**
4. Prepare, in proper form, the ***Liability and Shareholders' Equity section*** (only) of a classified statement of financial position as at September 30, 2014. *A complete statement of financial position is not required.* **(9 marks)**

Question 3 (27 marks; 45 minutes): Accounting for receivables and bad debts

This question consists of two independent parts.

PART A

On February 28, 2014 Swift Distributors Ltd. had the following (normal) balances:

Credit Sales, net	\$870,000
Trade Receivables	500,000
Allowance for Doubtful Accounts	31,000

The following selected transactions occurred during the remainder of the year that ends on July 31.

- March 1:* Sold \$30,000 of merchandise to Anderson Ltd., terms 2/10, n/30.
March 9: Received payment in full from Anderson for the balance due.
March 12: Accepted Dieppe Ltd.'s four-month, 6%, \$40,000 note for a balance due from a February transaction (not shown here). Interest is due at maturity.
March 15: Made VISA credit card sales totaling \$13,400. Bank charges of \$402 appeared on Swift's bank statement with respect to Visa credit card fees.
May 10: Wrote off as uncollectible \$32,000 of trade receivables.
July 12: Collected Dieppe note (refer to March 12 transaction).
July 16: One of the trade receivables written off in May was received in full, \$8,000.
July 31: Using an aging schedule, uncollectible accounts are estimated to be \$40,000.

Required:

1. Record the transactions that occurred on: *March 9, March 15, May 10, July 16 and July 31.* **(9 marks)**
2. Present only the Trade Receivables section of the Statement of Financial Position at July 31, 2014. **(5 marks)**
3. If Swift Distributors Ltd had written off an additional \$2,000 of trade receivable during 2014 and the ending balance of the Allowance account was estimated to be \$38,000, how would it have affected Net Trade Receivable? How would the write-off have affected net earnings? Explain. No journal entries are required. **(3 marks)**

PART B

An aging schedule of Reiko Limited's trade receivables at December 31, 2014 and 2013 showed the following:

Number of days outstanding	Estimated % Uncollectible	Trade Receivable Dec-31	
		2014	2013
0-30days	3%	\$240,000	\$220,000
31-60 days	6%	104,000	86,000
61-90 days	12%	62,000	52,000
Over 90 days	20%	34,000	22,000
Total		\$440,000	\$380,000

- ✓ At December 31, 2013 the unadjusted balance in Allowance for Doubtful Accounts was a credit of \$3,000.
- ✓ In 2014, \$28,000 of accounts were written off as uncollectible and \$3,000 of accounts previously written off were recovered.

Required:

1. Record the adjusting entry relating to bad debts on December 31, 2014. **(7 marks)**
2. Do you think Reiko was “prudent” when estimating bad debt expense? Explain. **(3 marks)**