

LAKEHEAD UNIVERSITY

EXAMINATION

ACCOUNTING BUSI-1012 - WA & WB

BUSINESS

SUBJECT | COURSE NO. | SECTION DEPARTMENT

FINANCIAL ACCOUNTING

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COURSE TITLE

INSTRUCTORS

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11:30 A.M. 1.5 HOURS

EXAM DATE

EXAM TIME & DURATION

TYPE OF EXAMINATION **FINAL** **MID TERM** **SPECIAL** **DEFERRED**

This examination question paper MAY MAY NOT be taken from the examination room.

STUDENT PLEASE NOTE:

1. **YOU MUST** count the number of pages in this examination question paper **BEFORE** beginning to write, and report any discrepancy immediately to a proctor.
2. The exam is a **CLOSED BOOK EXAM.**
3. Calculators capable of **ALPHA NUMERIC STORAGE ARE NOT PERMITTED**
4. You have a **MAXIMUM OF 2.5 HOURS** to complete the exam.
5. Cell Phone and Other Mobile Devices are NOT Permitted in the exam.

This examination has 14 pages.

This is page 1.

BUSI-1012

Mid-Term I

Student Marking Score Sheet

<u>Multiple Choice Questions</u>	<u>Student Score</u>	<u>Max Score</u>
Financial Statements		7
Accrual Accounting Concepts		7
Accounting Information System		7
Financial Statement Analysis (Ratios)		7
Financial Statement Concepts		7

<u>Task Based Simulation Problems</u>	<u>Student Score</u>	<u>Max Score</u>
Financial Statements		10
Accrual Accounting Concepts		15
Accounting Information System		15
Financial Statement Analysis (Ratios)		10
Accounting Information System		5

<u>Problems</u>	<u>Student Score</u>	<u>Max Score</u>
Journal Entries		10

<u>Total Score</u>		<u>100</u>
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Part I - Multiple Choice Questions

Financial Statements

- 1) Which financial statement can be used to determine the Company's assets:
 - a) **Balance sheet / Statement of Financial Position**
 - b) Income statement / Statement of Operations
 - c) Statement of Retained Earnings / Continuity in Equity
 - d) Statement of Cash Flows
 - e) Notes to the financial statements

- 2) Which financial statement can be used to determine the amount of dividends paid by a Company:
 - a) Balance sheet / Statement of Financial Position
 - b) Income statement / Statement of Operations
 - c) **Statement of Retained Earnings / Continuity in Equity**
 - d) Statement of Cash Flows
 - e) Notes to the financial statements

- 3) Which financial statement can be used to determine the Company's revenues:
 - a) Balance sheet / Statement of Financial Position
 - b) **Income statement / Statement of Operations**
 - c) Statement of Retained Earnings / Continuity in Equity
 - d) Statement of Cash Flows
 - e) Notes to the financial statements

- 4) The balance sheet title generally includes the following words:
 - a) For the period ended <<Date>>
 - b) **As at <<Date>>**
 - c) On the day of <<Date>>
 - d) A, B, or C are acceptable
 - e) Neither A, B, or C are acceptable

- 5) The income statement title generally includes the following words:
 - a) **For the period ended <<Date>>**
 - b) As at <<Date>>
 - c) On the day of <<Date>>
 - d) A, B, or C are acceptable
 - e) Neither A, B, or C are acceptable

- 6) The fundamental accounting equation is:
 - a) **Assets = Liabilities + Equity**
 - b) Assets + Liabilities = Equity
 - c) Revenue + Assets = Liabilities + Expenses
 - d) Revenue + Expenses = Assets
 - e) Assets + Equity = Liabilities

- 7) Who is responsible for the preparation of a corporations financial statements:
- a) **Management**
 - b) The auditors
 - c) The regulators
 - d) The lawyers
 - e) None of the above

Accrual Accounting

- 8) Which of the following accounts arises from an accrual:
- a) A prepaid asset
 - b) Deferred revenue
 - c) **Accounts receivable**
 - d) A, B, and C are all the result of an accrual
 - e) Neither of A, B, and C are the result of an accrual
- 9) Which of the following accounts arises from an deferral:
- a) **A prepaid asset**
 - b) Accounts payable
 - c) Accounts receivable
 - d) A, B, and C are all the result of an deferral
 - e) Neither of A, B, and C are the result of an deferral
- 10) A(n) _____ occurs when cash is received prior to revenue being earned:
- a) Accrual
 - b) **Deferral**
 - c) Prepaid asset
 - d) Accounts receivable
 - e) Reversal
- 11) A(n) _____ occurs when an expense is incurred before cash is paid out:
- a) **Accrual**
 - b) Deferral
 - c) Prepaid asset
 - d) Accounts receivable
 - e) Reversal
- 12) ABC Corporation sold \$10,000 worth of goods on December 30, 2014. ABC Corporation will be paid from their customers on January 4, 2015. ABC Corporation has a December 31 year-end. How much revenue will be reported from this transaction in fiscal 2014 under accrual based accounting?
- a) \$nil
 - b) \$2,500
 - c) \$5,000
 - d) \$7,500
 - e) **\$10,000**

- 13) ABC Corporation received \$5,000 as a down payment to build a shed. The cash was received on December 29, 2014. The shed will be built on January 5, 2015. ABC Corporation has a December 31, 2014 year-end. How much revenue will be reported in fiscal 2015.
- a) \$nil
 - b) \$2,500
 - c) \$3,000
 - d) \$4,000
 - e) \$5,000
- 14) There is no difference between the cash basis of accounting and the accrual basis of accounting when the following occurs:
- a) cash is received prior to revenue being earned
 - b) cash is paid prior to an expense being incurred
 - c) cash is received at the same time that revenue is earned
 - d) cash is paid after an expense was incurred
 - e) cash is received after the revenue is earned

Accounting Information System

- 15) Which of the following is not a rule for posting journal entries:
- a) Debits must equal credits in any journal entry.
 - b) At least two accounts must be included in each journal entry.
 - c) Credits are always recorded with an indent from the debits
 - d) The fundamental accounting equation must stay in balance after each journal entry.
 - e) All of the above are above are rules for posting journal entries.
- 16) When posting to T-Accounts, which of the following is false:
- a) The debits in a journal entry are posted to the left side of the T-Account
 - b) The credits in a journal entry are posted to the right side of the T-Account
 - c) Both the debits and credits of a journal entry should be posted to the T-Account
 - d) A, B, and C are all false
 - e) Neither of A, B, and C are false
- 17) What is the purpose of closing entries:
- a) To close out the revenue account for the next period
 - b) To close out the dividend account for the next period
 - c) To close out the expense account for the next period
 - d) To update the retained earnings balance on the post-closing trial balance
 - e) All of the above are purposes of closing entries
- 18) Which of the following accounts have a zero-balance on the trial balance at the beginning of the accounting period:
- a) Asset accounts
 - b) Liability accounts
 - c) Equity accounts
 - d) Revenue Accounts
 - e) A, B, and C all have zero balances

19) Which of the following represents the ideal order for moving through the accounting cycle:

- a) Journalizing → Posting → Preparing Financial Statements
- b) Posting → Journalizing → Preparing Financial Statements
- c) Preparing Financial Statements → Journalizing → Posting
- d) Journalizing → Preparing Financial Statements → Posting
- e) Posting → Preparing Financial Statements → Journalizing

20) A debit is used to:

- a) Increase an asset account
- b) Decrease a liability account
- c) Increase an expense account
- d) A, B, and C are correct
- e) Neither A, B, or C, are correct

21) A credit is used to:

- a) Increase a revenue account
- b) Increase a dividend account
- c) Decrease a liability account
- d) Decrease an equity account
- e) Increase an asset account

Financial Statement Analysis

Use the following information to answer questions 22 to 26.

Current Assets:	\$500	Revenues:	\$800
Non-Current Assets:	\$1,500	Cost of goods sold:	\$200
Current Liabilities:	\$400	All other expenses:	\$100
Non-Current Liabilities:	\$800		
Equity:	\$800		

22) Calculate the company's net income:

- a) \$0
- b) \$500
- c) \$600
- d) \$700
- e) \$800

23) What is the company's working capital:

- a) \$0
- b) \$100
- c) \$400
- d) \$500
- e) \$1,500

24) What is the company's current ratio:

- a) 1:1
- b) 2:1
- c) 1.5:1
- d) 1.25:1
- e) 0.8:1

25) What is the company's gross margin percentage:

- a) 10%
- b) 15%
- c) 20%
- d) 37.5%
- e) 50%

26) What is the company's total debt to equity ratio:

- a) 0.50:1
- b) 0.75:1
- c) 1:1
- d) 1.25:1
- e) 1.5:1

27) What is the company's return on equity:

- a) 25%
- b) 50%
- c) 62.5%
- d) 75%
- e) 100%

28) What is the company's return on assets:

- a) 25%
- b) 50%
- c) 62.5%
- d) 75%
- e) 100%

Financial Statement Concept

29) Revenue is concerned earned when:

- 1) Performance is essentially complete
 - 2) The amount earned is measurable
 - 3) The amount earned is collectable
 - 4) The cash has been received
-
- a) When 1, 2, 3 and 4 are satisfied
 - b) When 1, 2, 3 are satisfied
 - c) When 1 and 2 are satisfied
 - d) When 1 is satisfied
 - e) When 2, 3 and 4 are satisfied

- 30) Which of the following best describes the separate entity concept
- a) Journal entries should be recorded for only company transactions
 - b) Journal entries should be recorded for company and owner transactions
 - c) Journal entries should be recorded only for related party transactions
 - d) None of the above statements are consistent with the separate entity concept
 - e) All of the above statements are consistent with the separate entity concept
- 31) Which of the following forms of business organization will provide owners with limited liability:
- a) Sole proprietorships
 - b) Partnerships
 - c) Corporations
 - d) All of the above forms will provide limited liability
 - e) None of the above will provide limited liability
- 32) Which of the following forms of business organization will provide owners with ease of ownership transfer:
- a) Sole proprietorships
 - b) Partnerships
 - c) Corporations
 - d) All of the above forms are equally easily to transfer owners
 - e) None of the above forms are easy to transfer ownership
- 33) Which of the following forms of business organization is the easiest to set-up:
- a) Sole proprietorships
 - b) Partnerships
 - c) Corporations
 - d) All of the above forms are easy to set-up
 - e) None of the above forms are easy to set-up
- 34) Which of the following is not a role of Generally Accepted Accounting Principles (GAAP)?
- a) Provides Guidance to companies in selecting the accounting methods that best reflect the results of their operations and financial situation
 - b) Prevents managers from manipulating income figures that serve their interests by using accounting practices that are not in conformity with GAAP.
 - c) Limits the number of alternatives accounting methods in order to enhance the comparability of financial information across companies and over time.
 - d) All of the above are roles of GAAP.
 - e) None of the above are roles of GAAP.
- 35) Public companies in Canada must adopt the following accounting standards as their GAAP:
- a) Accounting Standards for Private Enterprises
 - b) International Financial Reporting Standards
 - c) Financial Accounting Standards Board
 - d) Accounting Standards for Not-for-Profits
 - e) Public Companies can select any of the above standards

Part II – Task Based Simulation Problems

Balance Sheet Preparation (10 marks)

ABC Corporation has the following financial information for their December 31, 2014 year-end:

Current Assets:	\$500	Revenues:	\$800
All other expenses:	\$XXX	Cost of goods sold:	\$200
Current Liabilities:	\$400	Non-Current Liabilities:	\$800
Non-Current Assets:	\$1,500	Common Stock:	\$200
Retained earnings	\$XXX	Net Income:	\$500

Task 1 – Prepare the balance sheet in the space provided below (note: solve for retained earnings)

ABC Company Balance Sheet As At December 31, 2014	
ASSETS	AMOUNT
Current assets	500
Non-current assets	1,500
Total Assets	2,000
LIABILITIES	
Current liabilities	400
Non-current liabilities	800
Total liabilities	1,200
EQUITY	
Common Stock	200
Retained Earnings	600
Total equity	800
Total L & E	2,000

Task 2 – Prepare the income statement (note: solve for other expenses)

ABC Company Income Statement For the Period Ended December 31, 2014	
Revenue	800
Cost of Goods Sold	200
Gross Margin	600
Other Expenses	100
Net income	500

Financial Statement Analysis (10 marks)

ABC Corporation is planning to expand their operations. However, they are concerned about how the expansion will impact various key ratios. Currently, ABC Corporation has the following account balances:

Current assets	\$1,000
Current liabilities	\$800
Total long-term debt	\$3,000
Total equity	\$2,500

The manager would like to understand how the following transactions will impact key ratios:

Potential Transaction	Impact on Current Ratio (Increase, decrease, no impact)	Impact on Debt to Equity Ratio (Increase, decrease, no impact)
1) Taking a long-term loan for \$1,000 cash.	Increase	Increase
2) Issuing common shares for \$1,000 cash.	Increase	Decrease
3) Repaying long-term debt with \$200 cash.	Decrease	Decrease
4) Repaying current liabilities with \$400 cash.	Increase	Decrease
5) Taking a short-term loan for \$200 cash.	Decrease	Increase

Accrual Accounting Concepts (16 marks)

Transaction	Effect on Accrual Income	Effect on Cash Income
(a) Sold coffee products to office services clients for \$35,200 in cash. The cost of these sales was \$19,600.	15,600	\$35,200
(b) Sold roast coffee beans to retail outlets for \$30,200; \$20,200 was received in cash and the rest was due from the outlets. The cost of the beans was \$14,000	16,200	20,200
(c) Received \$3,450 in royalties from franchisees; \$750 of the amount was due from franchisee's sale in last month.	2,700	3,450
(d) Paid \$10,000 on account owed to suppliers	0	(10,000)
(e) Sold \$4,300 in coffee-brewing equipment to office service customers who signed notes due in 18 months.	4,300	0
(f) Ordered and received \$29,000 in supplies inventory; \$9,000 of which was paid in cash, the rest on account.	0	(9,000)
(g) Paid \$7,310 in utilities, repairs, and fuel for delivery vehicles, all considered to be general and administrative.	7,310	7,310
(h) Paid \$7,400 in prepaid expenses; \$1,600 for insurance for the next for months, \$4,500 for rent in shopping centres for the next three months, and \$1,300 for advertising next month. Part of the prepaid rent and insurance was used up in the current month.	1,900	7,400

Accounting Information System (15 marks)

Solve for the unknown amounts in the T-Accounts (on the following page). Use the following information:

- The first number in the permanent accounts (balance sheet) are opening balances. The opening balances are italicized. There are no opening amounts in the temporary (income statement) accounts.
- All revenues were earned on account except for any resulting from realized deferred revenue.
- New equipment was purchased by signing new long-term notes payable.
- Interest and income tax expenses are accrued at year-end and paid in the following period.
- New common shares were issued for \$75 cash.
- The beginning wages payable balance was paid in full at the beginning of the current period. At month end, the month's wage expenses of \$20 was not paid as of the end of the period.
- New inventory was purchased on account (accounts payable)
- A \$10 dividend was declared and paid (find the most appropriate T-account to use)
- Inventory removed from the warehouse was all for goods sold.
- The beginning amount of receivables, \$75, was collected in full during the period.
- \$30 of the note payable was repaid during the period.

Solve for any 10 of the unknowns. Fill in your answers on the following:

1	A	100		9	I	75
2	B	25		10	J	25
3	C	10		11	K	70
4	D	20		12	L	10
5	E	250		13	M	20
6	F	90		14	N	75
7	G	15		15	O	30
8	H	15				

Cash		Accounts Receivable		Inventory		Equipment	
100		75		125		150	
[I]	[J]	[A]	[N]	[K]	90	250	
75	10						
	30						
Accumulated Amortization		Prepaid Rent		Accounts Payable		Notes Payable	
	80	50			60		100
	[B]		10		70	[O]	[E]
Wages Payable		Interest Payable		Income Taxes Payable		Deferred Revenue	
	25		0		0		20
25	[M]		[H]		15	20	
Share Capital		Retained Earnings		Revenue		Cost of goods Sold	
	130		85		100		
	75	[L]			[D]	[F]	
Income Tax Expense		Interest Expense		Amortization Expense		Rent Expense	
[G]		15		25		[C]	
Wage Expense							
20							

Accounting Information System (5 marks)

The following trial balance was compiled as of the December 31, 2014.

Complete the post-closing trial balance as it would look after the closing entries have been posted.

Adjusted Trial Balance			Post-Closing Trial Balance	
Account Name	Debit	Credit	Debit	Credit
Cash	300		300	
Accounts receivable	4,500		4,500	
Inventory	7,500		7,500	
Prepaid insurance	300		300	
Property, plant and equipment (PPE)	45,000		45,000	
Accumulated amortization - PPE		9,000		9,000
Accounts payable		5,100		5,100
Wages payable		2,100		2,100
Long-term debt		22,500		22,500
Share capital		13,500		13,500
Retained earnings (Jan 1, 2014)		3,900		5,400
Revenue		37,650		
Cost of goods sold	16,500			
Wage expense	7,500			
Supplies expense	5,100			
Insurance expense	1,200			
Office expense	3,600			
Income tax expense	750			
Dividends paid	1,500			
	<u>93,750</u>	<u>93,750</u>	<u>57,600</u>	<u>57,600</u>

Part III – Problem

Preparing Journal Entries (10 marks)

Prepare the journal entries for the following transactions / events:

1) ABC Corporation issued common shares for \$10,000 cash.

Cash		\$10,000
	Common shares	\$10,000

2) ABC Corporation received \$5,000 cash for services that will be performed in the future period.

Cash		\$5,000
	Unearned Revenue	\$5,000

3) ABC Corporation incurred \$2,000 in costs for maintenance expenses. These expenses will be paid next period.

Maintenance Expense		\$2,000
	Accounts Payable	\$2,000

4) ABC Corporation provided services to a company that will be billed in a future period. The services have a value of \$3,000.

Accounts Receivable	\$3,000	
Revenue		\$3,000

5) ABC Corporation purchased with cash an insurance policy that will cover the next two fiscal years. The policy cost \$1,000.

Prepaid Insurance	\$1,000	
Cash		\$1,000