CONCORDIA UNIVERSITY
John Molson School of Business
Department of Accountancy

(Read this page carefully before you begin)

Course:	Introduction to Financial Accounting
Number:	ACCO 230.4
Sections:	**BB** (Professor S. Tamas) **C** (Professor S. Mroz) **D** (Professor D. Himick)
Examination:	MIDTERM (3 hours)
Date:	February 13, 2011
No. of Pages:	**Eleven (11)**, including this page. Ensure your copy is complete.
Materials Allowed:	Non-programmable / non-graphical calculators, and one ordinary dictionary, i.e., not electronic. Pens, pencils, rulers, erasers.

IMPORTANT INSTRUCTIONS

- Answer multiple-choice questions on the computer input form only. Use only a pencil when writing on the input form.
- Show the answer for the "fill-in-the-blanks" exercises (Parts B and C of Problem 1, pages 5 and 6) directly on this questionnaire, and not in the examination copybook (booklet).
- Show the answers for Problems 2, 3, 4 and 5 in the examination copybook (booklet) only.
- Show details of all calculations, except for the multiple-choice questions and the "fill-in-the-blanks" exercises (Problem 1).
- Instructors will not answer queries, unless you think there is actually an error in the exam.

Problem No.	Marks	Suggested time
1	33	54 mins.
2	7	13 mins.
3	16	30 mins.
4	32	60 mins.
5	12	23 mins.
	100	180 mins.

NAME (Last, first) -- please print clearly ______________________________

ID ____________________ **Section _______**

<u>PROBLEM 1</u> (33 marks; 54 minutes) *Multiple-choice and "fill-in-the-blanks"*

<u>Part A (multiple-choice)</u> -- 21 marks

Using only a pencil and the computer input sheet select the <u>best</u> answer for each of the following.

For <u>multiple-choice questions 1 to 7</u> (Fairly Limited) show the **immediate** respective effects on the following financial statement items: <u>Total current assets</u>, <u>Total Liabilities</u>, <u>Retained earnings</u>, and <u>Net sales</u>. Fairly Limited uses a *perpetual* inventory system and follows IFRS. Ignore income taxes. An example is provided below.

Example: Payment of wages not previously accrued.
Answer: Decrease, no effect, decrease, no effect.

1. Received rent payment in advance from a tenant.
   (a) Increase, increase, no effect, no effect.
   (b) No effect, no effect, no effect, no effect.
   (c) Increase, no effect, no effect, no effect.
   (d) None of the above.

2. Issued common shares to investors in exchange for cash.
   (a) Increase, no effect, no effect, no effect.
   (b) Increase, no effect, increase, no effect.
   (c) Decrease, increase, no effect, no effect.
   (d) None of the above.

3. Purchased merchandise inventory for cash.
   (a) Decrease, no effect, no effect, no effect.
   (b) Increase, no effect, no effect, no effect.
   (c) No effect, no effect, no effect, no effect.
   (d) None of the above.

4. Sold inventory on account for 10% *below* its cost.
   (a) Decrease, no effect, decrease, increase.
   (b) Decrease, no effect, decrease, no effect.
   (c) Increase, no effect, decrease, no effect.
   (d) None of the above.

5. Borrowed cash from the bank on a long term basis (5 years).
   (a) Decrease, increase, no effect, no effect.
   (b) Increase, increase, no effect, no effect.
   (c) Increase, increase, decrease, no effect.
   (d) None of the above.

6. Collected cash from customers for sales made in previous months.
   (a) No effect, no effect, no effect, no effect.
   (b) Increase, no effect, no effect, no effect.
   (c) Increase, no effect, increase, no effect.
   (d) None of the above.

7. Received a deposit from a customer for work to be done next month.
   (a) Increase, increase, no effect, no effect.
   (b) Increase, increase, increase, no effect.
   (c) Increase, increase, increase, increase.
   (d) None of the above.

8. The respective normal account balances for Freight in, Sales, Sales returns and allowances, and Freight out are:
   (a) Debit, credit, credit, debit.
   (b) Debit, credit, debit, credit.
   (c) Debit, credit, credit, credit.
   (d) None of the above.

9. Clendennon Ltd. purchased office supplies costing $2,500 and debited Office supplies expense for the full amount (Cash was credited). At the end of the accounting period, a physical count of office supplies revealed $1,000 of supplies still on hand. The appropriate adjusting journal entry to be made at the end of the period would be
   a. debit Office supplies expense, $1,500; credit Office supplies, $1,500.
   b. debit Office supplies, $1,000; credit Office supplies expense, $1,000.
   c. debit Office supplies expense, $1,000; credit Office supplies, $1,000.
   d. debit Office supplies, $1,500; credit Office supplies expense, $1,500.

10. The inexperienced bookkeeper of Nay Corp. recorded a $200 cash sale as follows: debit Sales revenue, $200; credit Cash, $200. Which of the following statements, if any, is true?
   a. Sales revenue is overstated by $200, and Cash is overstated by $200.
   b. Sales revenue is overstated by $200, and Cash is understated by $200.
   c. Sales revenue is understated by $200, and Cash is understated by $200.
   d. None of the above statements is true.

11. The inexperienced bookkeeper of Zay Corp. recorded the monthly depreciation expense for equipment as follows: debit Accumulated depreciation, $500; credit Equipment, $500. Which of the following statements is true?
   a. The carrying amount of equipment is overstated by $500.
   b. The carrying amount of equipment is understated by $500.
   c. The carrying amount of equipment is overstated by $1,000.
   d. The carrying amount of equipment is understated by $1,000.

12. The inexperienced bookkeeper of Yay Ltd. recorded the accrual of monthly wages as follows: debit Wages payable, $6,000; credit Wages expense, $6,000. Which of the following statements is true?

   a. The bookkeeper's entry is actually correct.
   b. Wages payable is overstated by $12,000 and Wages expense is understated by $12,000.
   c. Wages expense is understated by $12,000 and Wages payable is understated by $12,000.
   d. Wages payable is understated by $6,000 and Wages expense is understated by $6,000.

13. An item is considered to be material if

   (a) the cost of reporting the item is greater than its benefits.
   (b) it is of a tangible nature.
   (c) it is likely to influence the decision of an investor or creditor.
   (d) it is likely that its value will change in the future.

14. Which permanent account is affected by the closing entries?

   (a) Retained Earnings.
   (b) Sales revenue.
   (c) Cash.
   (d) More than one of the above choices is correct.

PROBLEM 1 (Part B) (Fill-in-the-blanks) -- 6 marks

Elroy Ltd. began business on December 1, 2009 and follows accrual accounting methods and procedures in all respects. During the first few months of 2010 Elroy Ltd. paid office rent in the amounts indicated below. Each month's rent is the same and is payable in advance on the first day of the month -- for example, rent for the month of August is payable on August 1. Elroy has chosen a fiscal year end date of November 30th.

Date paid	*Amount paid*	*Months covered by the payment*
Jan. 1, 2010	$6,000	Dec. 2009, Jan. 2010, Feb. 2010
Mar. 1, 2010	$4,000	Mar. 2010, Apr. 2010
June 1, 2010	$4,000	May 2010, June 2010

Calculate the following amounts for Elroy Ltd. If you think an answer is zero, write the word "zero". Show your answers in the spaces provided. A blank answer will be graded as incorrect.

I. Rent expense for the month of December 2009. _____________

II. Prepaid rent, December 31, 2009. _____________

III. Rent payable, December 31, 2009. _____________

IV. Rent expense for the *quarter* ending February 28, 2010. _____________

V. Prepaid rent, March 31, 2010. _____________

VI. Prepaid rent, April 30, 2010. _____________

VII. Rent payable, May 31, 2010. _____________

VIII. Rent payable, June 30, 2010. _____________

PROBLEM 1 (Part C) **(Fill-in-the-blanks) -- 6 marks**

Financial information is presented below for Strojo Ltd. for its most recent year. The information is correct but has been presented in a random order by a mischievous clerk.

Cost of goods sold	$385,000
Sales	_________
Net earnings	_________
Cost of goods purchased	$290,000
Sales discounts	$6,000
Net sales	$780,000
Sales returns and allowances	$14,000
Income tax rate	30%
Operating expenses	________
Earnings before income tax	________
Income tax expense	$57,000
Cost of goods available for sale	________
Gross profit	________
Merchandise inventory, January 1	$100,000
Merchandise inventory, December 31	________
Retained earnings, January 1	________
Retained earnings, December 31	$4,600,000
Dividends declared	$12,000

Instructions:
Show the missing amounts, in the spaces above. The company has a December 31st year end date. You may use the area below for rough work, if you wish.

<u>PROBLEM 2</u> **(7 marks; 13 minutes)**

The following information for 2010 applies to Hahndon Inc., a company with little activity:

			Units	Total cost	Cost per unit
Jan.	1	Beginning inventory	150	$3,750	$25.00
May	15	Purchase	650	$18,200	$28.00
Sep.	22	Purchase	500	$15,000	$30.00
Dec.	10	Purchase	200	$5,400	$27.00
Dec.	30	Purchase	100	$2,600	$26.00

The company sold 700 units for $40 each on June 2, 100 units for $42 each on September 28 and 50 units for $43 each on November 7. There is no spoilage, shrinkage, theft, etc. Mr. Hahn, the owner, has asked for certain information based on the two independent assumptions noted below:

a) The amount of gross profit for the units sold on November 7 (that day only), assuming a <u>perpetual</u> (<u>FIFO</u> cost formula) system is used. (3 marks)

b) The cost of inventory and the number of units in stock (on hand), October 31 (not a "typo"), assuming a <u>perpetual</u> (<u>Average</u> cost formula) system is used. Round unit costs to four decimal places, please. (4 marks)

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<u>PROBLEM 3</u> **(16 marks; 30 minutes)**

Part (A) -- (10.5 marks) **(This part is independent of Part (B) of Problem 3)**

On September 1, Plans Supply Ltd. had an inventory of 20 widgets at a cost of $31 each. The company uses a <u>perpetual</u> inventory system. During the first two weeks of September, the following transactions and events occurred.

Sept. 4 Purchased 35 widgets for $31 each on account from Ginzer, terms 2/10, n/30, FOB destination.

5 The appropriate party paid shipping fees of $76 related to the transaction of September 4.

6 Received a credit for the return of three defective widgets purchased on Sept. 4.

8 Sold 22 widgets for $50 each on account to Makell Ltd., terms 3/7, n/30, FOB destination.

9 The appropriate party paid shipping fees of $83 related to the transaction of September 8.

PROBLEM 3 Part (A), continued

Sept. 12 Makell returned four of the widgets purchased on September 8th because they were in very poor condition. Upon their return and a detailed inspection, Plans Supply Ltd. scrapped the widgets (no value).

13 Paid Ginzer the amount owing.

14 Received the amount owing from Makell.

Required

Record the transactions for Plans Supply Ltd. *Please skip a line between each journal entry.* If there is no journal entry on the books of Plans Supply Ltd., write "no entry".

Problem 3 Part (B) -- (5.5 marks) **(This part is independent of Part (A) of Problem 3)**

On May 1, Ms. K's Grills Ltd. had an inventory of 10 barbeques at a cost of $500 each. The company uses a periodic inventory system. During the first two weeks of May the following transactions occurred.

May. 2 Purchased twenty-five barbeques for $500 each on account from Lyons Bar-B-Q's, terms 2/10, n/30, FOB shipping point.

4 The appropriate party paid shipping fees of $396 related to the transaction of May 2.

6 Received a credit from Lyons Bar-B-Q's for the return of two defective barbeques.

9 Sold twelve barbeques to Sally's Burgers for cash totalling $12,000.

15 Paid Lyons the amount owing.

Required

Record the transactions for Ms. K's Grills Ltd. *Please skip a line between each journal entry.* If there is no journal entry on the books of Ms. K's Grills Ltd., write "no entry".

PROBLEM 4 **(32 marks; 60 minutes)**

The following is the unadjusted trial balance for Doby Ltd. at December 31, 2010. Doby Ltd. is a wholesaler of baseball equipment. The company also rents a small part of its building to a hair stylist. Doby adjusts its accounts annually.

Doby Ltd. Unadjusted Trial Balance December 31, 2010		
	Debit	Credit
Manufacturing equipment	$270,000	
Cash	23,000	
Prepaid insurance	5,100	
Merchandise inventory	12,000	
Land	100,000	
Building	180,000	
Accumulated depreciation – building *		$ 30,000
Accounts payable		7,500
Unearned rent revenue		2,900
Mortgage payable, due 2017		80,000
Common share capital (25,000 shares **)		34,000
Retained earnings, December 31, 2009		60,000
Dividends	5,000	
Dividends payable		2,000
Sales revenue		967,000
Sales returns and allowances	12,500	
Cost of goods sold	340,000	
Rent revenue		6,435
Salaries and wages expense	76,000	
Interest expense	2,200	
Accumulated depreciation – manufacturing equipment *		9,000
Insurance expense	8,000	
Other operating expenses	20,000	
Accounts receivable	145,035	
	$ 1,198,835	$1,198,835

* Straight-line depreciation method is used.
** All shares were issued on the date of incorporation, April 8, 1969.

Information for adjustment purposes:

1. A six-month insurance policy was purchased on October 31, 2010 for $5,100 covering the period November 1, 2010 to April 30, 2011. Prepaid Insurance was debited and Cash was credited to record the transaction.
2. The equipment has an estimated useful life of 15 years (no residual or salvage value).
3. The building has an estimated useful life of 30 years (no residual or salvage value).
4. Other Operating Expenses include $4,000 of office supplies that have not yet been used.

PROBLEM 4, continued

Information for adjustment purposes, continued:

5. The mortgage interest rate is 3% per year. Interest has been paid and properly recorded up to December 1, 2010. The next payment is due January 1, 2011.
6. Doby Ltd. received $2,900 rent in advance from the hair stylist on September 30, 2010 representing rent for the period October 1, 2010 to January 31, 2011. Cash was debited and Unearned Rent Revenue was credited to record the transaction. (Each month's rent is the same.)
7. Income taxes are estimated to be $121,200 and will be paid in March 2011.

Required

a. Prepare adjusting journal entries for items (1) to (7) above as at December 31, 2010. Create new accounts, if necessary. *Please skip a line between each journal entry.* (10.5 marks)

N.B. Be sure to include the impact of the adjusting entries, as appropriate, when answering Requirements (b) to (g) below.

b. Prepare, in proper form and style, a multiple-step statement of earnings for Doby Ltd. for the year ended December 31, 2010. You may want to use T-accounts as part your rough work. (9 marks)

c. Show, in proper form and style, the long-term assets section of the company's balance sheet as at December 31, 2010. A complete balance sheet is not required. (4.5 marks)

d. How much is the *remaining life* of the equipment, in months, as at December 31, 2010? (1.5 marks)

e. How much is the *age* of the building, in months, as at December 31, 2010? (1.5 marks)

f. How much is the post-closing amount of retained earnings as at December 31, 2010? You are not required to show the actual closing entries, nor are you required to prepare a statement of retained earnings (a calculation will suffice). (2 marks)

g. How much are total current liabilities as at December 31, 2010? Neither a balance sheet, nor an extract therefrom, is required (a calculation will suffice). (3 marks)

Problem 5 **(12 marks; 23 minutes)** *Financial ratios*

Below are summary balance sheets for Bailey Ltd. at December 31, 2010 and 2009, respectively:

	2010	2009
Cash	$137,000	$168,000
Accounts receivable	57,000	18,000
Merchandise inventory	67,000	30,000
Long-term investments	22,000	55,000
Land	37,000	27,000
Equipment	820,000	704,000
Accumulated depreciation	(210,000)	(170,000)
Total Assets	$930,000	$832,000
Accounts payable	$ 57,000	$473,400
Income taxes payable	37,000	20,000
Dividend payable	3,000	1,600
Note payable, due March 1, 2012	88,000	109,000
Common shares	150,000	25,000
Retained earnings	595,000	203,000
Total Liabilities and Equity	$930,000	$832,000

The summary income statement for 2010 is shown below:

Sales	$ 8,100,000
Cost of goods sold	(4,500,000)
Operating expenses	(2,700,000)
Interest expense	(4,000)
Interest income	1,000
Income tax expense	(423,000)
Net earnings	$ 474,000

Additional information for 2010 *(some of this information may not be relevant for this problem)*:

- Cash provided by operating activities, $52,000.
- Weighted average number of common shares outstanding, 100,000.
- Market price per common share, December 31, 2010, $26.00.
- All sales are made on account (on credit).
- Sales revenue was 5% higher in 2010 compared to 2009.
- Net capital expenditures, $139,000.

Required

1. Calculate the amount of dividends paid in 2010. (2.5 marks)

2. Calculate the following ratios (amounts) for 2010, using the formulae described in the textbook.

a) Current ratio
b) *Gross profit margin ratio*
c) *Free cash flow*
d) Earnings per share (EPS)
e) Price earnings (PE) ratio
f) Debt to total assets ratio

AND, provide meaningful definitions for *(b) and (c)* (italicized above). (9.5 marks)

End of Midterm Examination