

Question 1 (30 marks; 45 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.

- Which of the following accounts is least likely to appear in an adjusting journal entry?
 - Sales Revenue
 - Wages payable
 - Cash
 - Interest expense
- Which of the following is a temporary account:
 - Retained earnings
 - Deferred revenue
 - Accumulated depreciation
 - Interest expense
- Which of the following transactions will cause an increase on both sides (left and right) of the basic accounting equation?
 - Recording depreciation expense.
 - Making payment to a supplier for inventory purchased on account.
 - Borrowing money from a bank.
 - Purchasing equipment in cash.
- Kam Company Ltd.'s bad debt expense is understated by \$4,000. The effects of this error on the current year's balance of Total Liabilities and Profit, respectively, are:

<u>Total Liabilities</u>	<u>Profit</u>
a. Understated	Overstated
b. Overstated	Understated
c. Understated	Understated
d. No impact	Overstated
- Which of the following statements is incorrect about earnings per share?
 - It is required to be disclosed on the income statement.
 - It equals Retained Earnings divided by the number of shares outstanding.
 - A steady increase in earnings per share is a signal of good management.
 - It is used to evaluate a company's profitability.
- An adjustment to a company's reported cash balance is needed if:
 - a cheque made to a supplier has not yet been received by its bank.
 - its bank has incorrectly recorded a cheque in the company's bank account.
 - a notice of a bank service charge is received along with the bank statement.
 - a deposit was in transit at the end of the period.
- Rogers Corporation reported the following amounts at the end of its first year of operations, December 31, 2013: contributed capital \$120,000; sales revenue \$480,000; total assets \$400,000; and total liabilities \$250,000. Its total expenses for 2013 would be:
 - 150,000
 - 130,000
 - 360,000
 - 450,000

8. On April 1, 2013, Gecko Company borrowed \$48,000 from a local bank at an annual interest rate of 8 percent, and signed a note, payable on April 1, 2014. Interest on this note is also payable at that date. Which of the following amounts should be reported as interest expense related to this note on Gecko's for the year ended December 31, 2013?
- a. \$0.
 - b. \$2,560.
 - c. \$2,880.
 - d. \$3,840.
9. The usefulness of the debt-to-equity ratio is that it allows interested parties to assess
- a. how the company finances its assets.
 - b. the relative risk assumed by the company because of debt financing.
 - c. whether the company should expand its use of debt to finance assets.
 - d. All of the above.
10. Which of the following statements regarding depreciation of a building is incorrect?
- a. As depreciation is recorded, the balance of total assets is reduced.
 - b. Depreciation is an estimated expense to be recorded over the building's estimated useful life.
 - c. As depreciation is recorded, the balance of shareholders' equity is reduced.
 - d. As depreciation is recorded, the balance of total liabilities is increased.
11. Which of the following statements best describes the matching process?
- a. Total assets should equal the sum of total liabilities and shareholders' equity.
 - b. Revenues should be recognized when they are earned, instead of when cash is received.
 - c. Revenue and the expenses that were incurred to earn that revenue should be reported in the same accounting period.
 - d. The total amount of debits should always equal the total amount of credits.
12. Which of the following conditions must exist for an item to be recorded as an asset?
- a. The item is not owned or controlled by the company.
 - b. Future benefits from the item cannot be reliably measured.
 - c. The item must be a tangible asset.
 - d. The item must be expected to provide future benefits.
13. The time it takes for a company to pay cash to suppliers, sell goods and services to customers, and collect cash from customers is called:
- a. Revenue cycle
 - b. Life cycle
 - c. Operating cycle
 - d. Cash cycle
14. Which of the following is not a contra-revenue account?
- a. Credit card discounts
 - b. Sales discounts
 - c. Sales returns and allowances
 - d. Allowance for doubtful accounts

15. Which of the following statements reflects a weak internal control procedure for cash?
- a. At the end of a business day, the person who handles cash disbursement is allowed to keep no more than \$1,000 cash in his safe.
 - b. All cash receipts should be deposited in a bank on a daily basis.
 - c. For payment larger than \$10,000, signatures from two authorized personnel are required.
 - d. Only one person should handle cash receipts and cash disbursements so as to reduce labour costs and limit access to cash.

16. The following information is available to the accountant of M&M Company when preparing the monthly bank reconciliation:

Outstanding cheques:	\$ 500
Bank service charges	50
Deposits in transit	1,500
Customer note receivable collected by bank	975
Cash balance per bank statement	1,265

Assuming there is no error on bank statement, the cash balance on M&M's book before the reconciliation should be:

- a. \$1,840.
 - b. \$1,400.
 - c. \$1,340.
 - d. \$1,290.
17. Which of the following statement regarding returns of sales on account is incorrect?
- a. The sales returns decrease shareholders' equity
 - b. The sales returns decrease the balance of net sales
 - c. The sales returns increase cost of goods sold
 - d. The sales returns decrease the balance of total assets.
18. Accounting information is considered to be relevant when
- a. it represents the economic conditions and events that it is intended to represent.
 - b. it is capable of making a difference in a decision.
 - c. it is understandable by reasonably informed users.
 - d. it is verifiable and neutral.
19. Master Bakery is specialized in making wedding cakes. Customers are always required to pay a deposit equal to the full purchase price, when they place orders. During the month of September 2013, Master Bakery received \$34,000 in customer deposits. The balance in its Deferred Revenue account was \$14,000 at September 1, 2013 and \$16,000 at September 30, 2013. How much revenue did Master Bakery recognize during the month of September 2013?
- a. \$30,000
 - b. \$32,000
 - c. \$34,000
 - d. \$36,000
20. The bookkeeper of Giants Co. recorded a cash collection on account by debiting Cash and crediting Trades Payable. As a result of this error,
- a. The trial balance will still balance.
 - a. Total liabilities will be overstated on the trial balance.
 - b. Total assets will be overstated on the trial balance.
 - d. All statements above are correct.

Question 1 (21 marks; 38 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. Which of the following accounts would appear in a closing entry?
 - a. Salaries Payable
 - b. Trade Accounts Receivable
 - c. Retained Earnings
 - d. Accumulated Depreciation

2. On June 1, 2013, Windall Inc. signed a note for \$10,000, payable in three years. Annual interest of 9 percent is payable on June 1 of each year, beginning in 2014. What amount of interest expense should be reported on Windall's statement of earnings for its fiscal year ended December 31, 2014?
 - a. \$900
 - b. \$1,350
 - c. \$450
 - d. \$2,700

3. Failure to make an adjusting entry to recognize accrued salaries payable would cause the following:
 - a. An understatement of expenses, liabilities, and shareholders' equity.
 - b. An overstatement of shareholders' equity, and an understatement of both expenses and liabilities.
 - c. An overstatement of both assets and shareholders' equity.
 - d. An overstatement of both assets and liabilities.

4. Bianca Corp. reduced its selling and administrative expenses while maintaining sales volume and the sales price of its products. How will this affect the net profit margin ratio?
 - a. The ratio will decrease.
 - b. The ratio will not change.
 - c. The ratio will increase.
 - d. The ratio will either increase or decrease depending on the amount of the reduction in the selling and administrative expenses.

5. The dual effects concept can best be described as follows:
 - a. Recording a transaction in the accounting system will have at least two effects on the basic accounting equation.
 - b. When an exchange takes place between two parties, both parties must record the transaction.
 - c. When a transaction is recorded, both the statement of financial position and the statement of earnings will be affected.
 - d. When a transaction is recorded, one account will always increase and one account will always decrease.

6. When using the allowance method, as bad debt expense is recorded,
 - a. Total assets remain the same and shareholders' equity remains the same.
 - b. Total assets decrease and shareholders' equity decreases.
 - c. Total assets increase and shareholders' equity decreases.
 - d. Total liabilities increase and shareholders' equity decreases.

7. The inventory costing method selected by a company will affect
 - a. The statement of financial position.
 - b. The statement of earnings.
 - c. The statement of retained earnings.
 - d. All of the above.

8. Which of the following is *not* a financing activity on the statement of cash flows?
- Lending money to a shareholder.
 - Borrowing money from a local bank.
 - Paying dividends to shareholders.
 - Issuing shares to shareholders.
9. If a company reported the following items on its statement of earnings (cost of sales \$100,000, income tax expense \$40,000, interest expense \$10,000, operating expenses \$70,000, sales revenue \$280,000), what amount would be reported for the subtotal “earnings from operations”?
- \$180,000
 - \$60,000
 - \$100,000
 - \$110,000
10. Bueno Corp. reported gross sales of \$500,000, one-half of which were sales on account. Customers used their credit cards to pay for \$200,000 of sales. The credit card company charges 3% for payments made by a credit card. Sales on account for \$30,000 were returned to Bueno Corp., and sales discounts of 2% were taken on the net credit sales. What is the amount of net sales?
- \$454,000
 - \$460,600
 - \$459,600
 - \$459,000
11. Which of the following would normally **not** be found in the notes to the financial statements?
- Accounting rules applied in the company’s financial statements.
 - A description of the company’s products and services.
 - Additional detail supporting numbers reported in the company’s financial statements.
 - Relevant financial information not presented in the company’s financial statements.
12. At the end of a recent year, The Gap, Inc., reported total assets of \$7,564 million, current assets of \$4,005 million, total liabilities of \$3,177 million, current liabilities of \$2,158 million, and shareholders’ equity of \$4,387 million. What is its current ratio and what does this suggest about the company?
- The ratio of 2.38 suggests that The Gap has liquidity problems.
 - The ratio of 1.86 suggests that The Gap has sufficient liquidity.
 - The ratio of 2.38 suggests that The Gap has greater current assets than current liabilities.
 - The ratio of 1.86 suggests that The Gap is not able to pay its short-term obligations with current assets.
13. Which of the following statements are true regarding the statement of financial position?
- One cannot determine the true fair market value of a company by reviewing its statement of financial position.
 - Certain internally generated assets, such as a trademark, are not reported on a company’s statement of financial position.
 - A statement of financial position shows only the ending balances, in a summarized format, of all statement of financial position accounts in the accounting system as of a particular date.
- None of these statements is true.
 - Statements 1 and 2 only are true.
 - Statements 2 and 3 only are true.
 - All statements are true.

Winter 2014 Midterm - Q2

Question 2 (50 marks; 90 minutes):

Journal Entries and Financial Statements

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

As at December 1, 2013, Oshawa Ltd.’s trial balance shows the following. The accounts are listed in alphabetical order.

	<u>Debit</u>	<u>Credit</u>
Accumulated depreciation, building		\$22,500
Accumulated depreciation, equipment		11,250
Allowance for doubtful accounts		2,250
Building	\$300,000	
Cash	62,290	
Cost of goods sold	161,250	
Deferred revenue		14,050
Equipment	75,000	
Membership Expense	880	
Merchandise inventory	20,000	
Miscellaneous operating expenses	1,750	
Note receivable, due June 1, 2014	30,000	
Prepaid income taxes	1,300	
Prepaid Membership	80	
Rent expense	13,750	
Retained earnings, Dec. 31, 2012		219,000
Sales returns and allowances	5,500	
Sales revenue		376,250
Share capital (10,000 shares)		250,000
Trade payables		41,250
Trade receivables	125,000	
Wages expense	139,750	
Totals	<u>\$ 936,550</u>	<u>\$ 936,550</u>

During the month of December, the following transactions occurred:

Dec. 1: Agreed to rent a warehouse, starting from the same day, for two years. Paid \$12,000 cash in advance for the first year.

Dec. 1: Purchased equipment at a cost of \$45,000; the company paid one third of the cost in cash and signed a note payable in three years for the remaining balance. The annual interest rate on the note payable is 6%.

Dec. 3: Ordered \$500 office supplies.

Dec. 6: Purchased an insurance policy, and made full cash payment of \$3,600 on the same day. The insurance policy would cover the company for one year from December 1.

Dec. 12: Sold merchandise for \$30,000 on account. The cost of products sold was \$12,000.

Dec. 16: Paid \$8,000 in salaries to employees who worked for the first half of December.

Dec. 18: Received an order from a client worth \$21,000.

Dec. 23: Received an invoice of \$960 for renewing 2014 membership fees, but decided to pay it in early January, 2014.

Below is additional information available to Oshawa's accountants on December 31, 2013, the end of Oshawa's fiscal year. No journal entry has been made, however.

- a) Prepaid Membership refers to the membership fee of an institution that Oshawa joined in November. Oshawa started its membership on December 1, 2013.
- b) The note receivable was obtained by Oshawa on July 1, 2013 and carries an annual interest rate of 4%. The interest is paid to Oshawa at maturity only.
- c) For 2013, depreciation expense of the building was \$7,500, and depreciation expense of the equipment (both the old and the newly acquired ones) was \$3,750.
- d) Oshawa's employees get paid bi-weekly on the 1st and the 16th of every month, for a total amount of \$8,000. The next pay day is January 1st 2014.
- e) Cash dividends of \$1.75 per share were declared on December 31, 2013 and would be paid on January 25, 2014.
- f) The allowance for doubtful accounts must be increased to an amount of \$3,000 based on an analysis of trade receivables as at December 31, 2013.
- g) The company is subject to an income tax of 25%. Income taxes are due March 15, 2014. (Hint: Complete requirement 3 before making this adjusting entry)

Required 1:

Prepare the journal entries needed to record the above transactions that occurred in December, 2013. 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. **(9 marks)**

Required 2:

Prepare the adjusting journal entries as at December 31, 2013 (**Note, in addition to items (a) to (g) above, transactions from Requirement 1 may also need additional adjusting entries**). Create new accounts if necessary. Skip a line between entries, and omit narratives.

(13 marks)

Required 3:

Prepare, in proper form, a multi-step classified income statement for the year ended December 31, 2013. **(11 marks)**

Required 4:

Prepare, in proper form, the **Liability and Shareholders' Equity section** (only) of a classified statement of financial position as at December 31, 2013. *A complete statement of financial position is not required.* **(10 marks)**

Required 5:

Assume that total assets were \$550,000 as at December 31, 2012. Calculate the following ratios based on your prior answers and briefly explain the meaning of each ratio:

- a. Net profit margin (%)
- b. Total Asset Turnover
- c. Return on Equity (%)

When applicable, round your answer to two decimal places.

(7 marks)

Winter 2014 Midterm - Q3

Question 3 (20 marks; 45 minutes): *Accounting for receivables and bad debts*

During December 2013, Gateway Inc. had the following transactions:

- a) *December 2*, sold merchandise worth of \$15,000 to Tom, 80% of which were on account.
- b) *December 4*, Tom returned merchandise worth of \$500 – 10% related to cash sales, and 90% related to sales on account.
- c) *December 12*, Tom paid off the purchase made on December 2.
- d) *December 17*, wrote off \$1,000 trade receivables deemed uncollectible.
- e) *December 20*, sold merchandise worth of \$ 5,400 to Danielle. Danielle paid the merchandise on her VISA Credit Card. The Credit Card charge was 3%.
- f) *December 27*, received cash payment of \$600 for trade receivable previously written off.

Additional information

- Credit sales term: 2/15, n/30.
- Sales Revenue as at November 30, 2013:
 Cash Sales: \$37,000; Net Credit Sales: \$328,000
- The balance of Trade Receivable
 As at December 31, 2012: \$55,000; As at November 30, 2013: \$51,000.
- Estimated uncollectible rate applicable to all receivables, regardless of the age:
 As at December 31, 2012: 3.0%; As at December 31, 2013: 3.5%.

Required 1:

Prepare journal entries for transactions a) to f), above. **(6 marks)**

Required 2:

What is the amount of bad debt expense should Gateway record at the fiscal year-end, December 31, 2013? Show your calculations. **(4 marks)**

Required 3:

Calculate the trade receivable turnover ratio for 2013 (round your answer to two decimal places). What does your result suggest about Gateway's ability to manage trade receivable during 2013? Be specific. **(5 marks)**

Required 4:

Assume, starting from 2013, Gateway follows the *Percentage of Credit Sales* method to determine bad debt expense. Based on past experience, Gateway estimates the bad debt rate to be 1% of net credit sales. Show, in proper form, how trade receivable would be presented on the company's Statement of Financial Position as at December 31, 2013. **(5 marks)**

Question 2 (14 marks; 35 minutes):

Journal Entries

Part A: Recording Transactions (6 Marks)

Bronco Corporation uses accrual accounting to record revenues and expenses, and had the following transactions during 2013:

- a. January 1: Paid two years' worth for rent to its landlord in the amount of \$24,000.
- b. July 1: Purchased machinery for \$10,000 cash. This machinery was thought to have a useful life of 5 years with no salvage value.
- c. August 1: Purchased merchandise inventory for \$2,000,000 on account.
- d. September 1: Sold merchandise to a client for \$1,000,000 on account. Bronco's gross profit percentage is 30%.
- e. November 1: Received \$120,000 from a client for services to be performed evenly through April 30, 2014.

Required

Prepare journal entries in the proper format for the above transactions. Please skip a line between journal entries and omit narratives.

Part B: Closing Entries (4 Marks)

A partial list of Bangle Inc.'s account balances as at December 31, 2013 are shown below. All accounts have "normal" debit or credit balances.

Cash	\$ 10,000	Trade Payables	\$ 30,000
Trade Receivables	50,000	Cost of Goods Sold	120,000
Land	100,000	Loan Payable	40,000
Sales Revenue	200,000	Common shares	100,000
Sales Discounts	10,000	Operating Expenses	5,000
Sales Returns and Allowances	5,000	Interest Expense	3,000

Required

Prepare Bangle Inc.'s closing journal entries for the year ended December 31, 2013.

Part C: Correcting Erroneous Journal Entries (4 Marks)

Snow White works as an accountant for Seven Dwarfs, Ltd. She has prepared the following journal entries; however, being new to the job, she is not sure whether her journal entries are correct. You are a very good friend of Snow White. Having taken COMM 217 at Concordia, you are confident that you can help her to correct erroneous journal entries.

March 1: Yvonne Bushes gave Seven Dwarfs a truck worth \$30,000 in exchange of 10,000 common shares for the same value.

Cash.....	30,000	
Truck		30,000

May 1: Seven Dwarfs borrowed \$100,000 from DT bank at 6% for 6 months.

Cash.....	100,000	
Interest Expenses	3,000	
Loan.....		103,000

August 31: Seven Dwarfs hired Mary Pumpkin as the Chief Financial Officer and promised to pay her an annual salary of \$150,000. Mary Pumpkin is expected to start her job on January 1st, 2014.

No journal entry was recorded.

December 31: Snow White prepared adjusting entries to record depreciation expense of a machine purchased two years earlier. The machine was purchased for \$30,000, had an estimated useful life of 10 years with no salvage value.

Depreciation Expense	3,000	
Machinery.....		3,000

Required

If you think Snow White’s original journal entries are incorrect, prepare correct journal entries. If you think Snow White’s original journal entries are correct, write “No correction is required” and briefly explain the reason.

Question 4 (23 marks; 40 minutes)

Trade Receivables and Bad Debt

O'Reily Corp. had the following events during its final three months of the fiscal year ending on May 31, 2013.

- (a) March 28: Sold \$800 of merchandise to Andrew on account.
- (b) March 29: Andrew returned \$150 of the merchandise purchased on March 28.
- (c) April 3: Sold \$2,400 of merchandise to Michael. Michael used a VISA credit card to pay for his purchase. A 3% service fee is charged by VISA.
- (d) April 6: Andrew paid off the balance of his account.
- (e) April 14: Wrote-off an old account for \$ 1,500 which is related to sales made prior to March 1, 2013.
- (f) April 25: Patel purchased \$6,000 of merchandise, paid half in cash.
- (g) May 30: O'Reily recovered \$500 from the receivables that were written-off on April 14.

Additional information:

- Credit terms: 2/10, n/30
- Andrew has a balance of \$500 outstanding as of March 1, 2013, from purchases made on January 10, 2013.
- O'Reily's records show the following account balances as of March 1, 2013:

Trade Receivables	\$ 8,500
Allowances of Doubtful Account (credit balance).....	500
Net Credit Sales.....	95,500
Cash Sales	50,000

Required

1. Prepare the journal entries to record the above transactions (11 Marks).
2. O'Reily uses **the Aging of Trade Receivables method** to determine the amount of receivables that may not be collected in the future according to the following schedule:

Estimated Uncollectible Rate	
Not yet due.....	5%
1-30 days past due.....	10%
31-60 days past due.....	15%
More than 60 days past due.....	20%

Determine the amount of receivables that may not be collected in the future, and prepare the journal entry to record the bad debt expense on May 31, 2013. Show all your calculations. (6 Marks)

3. Suppose O'Reily estimate bad debts to equal 1% of its **Net Credit Sales**. Would O'Reily incur a higher or lower bad debt expense for the fiscal year ending on May 31, 2013? Show your calculations. (3 Marks)
4. O'Reily's Trade Receivables account had a balance of \$8,500 at May 31, 2012. Compute the Trade Receivables Turnover ratio for O'Reily. Comment also on its ability to collect account receivables. (3 Marks)