

BUSI 1001R – Principles of Financial Accounting
BUSI 1004R – Financial Accounting for Business Students

Mid-Term Examination – May 30, 2015 9:00 – 11:00

1. There are 60 marks available on this exam.
2. This exam comprises of 5 questions and has 6 pages. Please ensure that you have a complete exam paper before starting.
3. Answers to Question 1 should be entered on the Scantron Sheet
4. Answers to Questions 2-5 should be answered in the test booklet.
5. Financial calculator allowed. Programmable calculators are not allowed.
Electronic language dictionaries are not allowed.

Question 1 (18 marks) (36 minutes)

Each question is worth 2 marks. Please enter your answers on the Scantron Sheet.

1. Which of the following accounts would normally have a credit balance?
 - a) Salary expense
 - b) Building
 - c) Accumulated depreciation
 - d) Prepaid expense

2. On June 5, 20x3, Logan Ltd. sold merchandise inventory to a customer for \$42,000, on credit. The cost of the inventory to Logan was \$36,000. What is the effect of this business transaction on the accounting equation of Logan?
 - a) Assets increase \$42,000, liabilities do not change, and equity increases \$42,000
 - b) Assets increase \$6,000, liabilities decrease \$6,000, and equity increases \$6,000
 - c) Assets increase \$6,000, liabilities do not change, and equity increases \$6,000
 - d) Assets increase \$78,000, liabilities decrease \$36,000, and equity increases \$42,000

3. How would a transaction that increases an asset and increases revenue be recorded?
- Debit the asset and credit the revenue
 - Debit the asset and debit the revenue
 - Credit the asset and debit the revenue
 - Credit the asset and credit the revenue
4. A company has earned, but has not accrued, revenue of \$6,120 at its June 30, 20x3 year end. What would be the effect on the company's income statements for the year ended June 30, 20x3 if the correct adjusting entry for accrued revenue is not made?
- Operating income understated by \$6,120, no effect on assets, and liabilities understated by \$6,120
 - Operating income understated by \$6,120, assets understated by \$6,120, and no effect on liabilities
 - Operating income overstated by \$6,120, assets overstated by \$6,120, and no effect on liabilities
 - Operating income overstated by \$6,120, assets understated by \$6,120, and no effect on liabilities
5. Ring Company records the purchase of office supplies in the office supplies (asset) account. At each month end, the balance in the office supplies account is adjusted to the actual amount based on a physical inventory count. The March 31, 20x3 adjusted balance in the office supplies account was \$4,600. During April 20x3, \$2,300 of office supplies were purchased. The physical inventory count at April 30, 20x3 showed \$3,900 of office supplies on hand. What adjusting journal entry would Ring make at April 30, 20x3 to properly report office supplies on hand?
- | | | |
|-----------------|-------|-------|
| Office Supplies | 2,300 | |
| Cash | | 2,300 |
 - | | | |
|-------------------------|-------|-------|
| Office supplies expense | 6,900 | |
| Office Supplies | | 6,900 |
 - | | | |
|-------------------------|-------|-------|
| Office supplies expense | 3,000 | |
| Office Supplies | | 3,000 |
 - | | | |
|-------------------------|-------|-------|
| Office Supplies | 3,000 | |
| Office supplies expense | | 3,000 |

6. The September 30, 20x2 unadjusted trial balance of Lipper Company showed a credit balance of \$47,000 in the unearned revenue account. Of this amount, \$17,000 had still not been earned at September 30, 20x2. Which of the following would be the correct September 30, 20x2 adjusting journal entry with respect to unearned revenue?

a)	Unearned Revenue	30,000	
	Revenue		30,000
b)	Unearned Revenue	17,000	
	Revenue		17,000
c)	Revenue	30,000	
	Unearned Revenue		30,000
d)	Cash	17,000	
	Revenue		17,000

7. At March 31, 20x3, the unadjusted trial balance of JL Company has a debit balance of \$12,000 in the prepaid rent account. At March 31, 20x3, \$9,000 of the balance in the prepaid rent account had not been used. JL prepares adjusting journal entries monthly. Which of the following would be the correct monthly adjusting journal entry at March 31, 20x3, with respect to this prepaid rent?

a)	Prepaid Rent	3,000	
	Rent expense		3,000
b)	Rent expense	9,000	
	Prepaid Rent		9,000
c)	Cash	9,000	
	Prepaid Rent		9,000
d)	Rent expense	3,000	
	Prepaid Rent		3,000

8. Barbart Retail Sales Co. sells merchandise inventory at a gross profit of 30% of the sales price. On June 4, 20x0, a flood destroyed the entire inventory. From the accounting records, it was determined that beginning inventory was \$187,000 and purchases during the year before the flood totaled \$613,000. Sales for the year before the flood were \$895,000. What would be the value of the inventory destroyed?

- \$531,500
- \$187,000
- \$175,000
- \$173,500

9. Christie's Campground rents space for campers from April to October. While Christie's has a December 31st year end, many campers put down a deposit for the following summer to secure the desired week. As at December 31, 20x4, the revenue account has a balance of \$70,000, which includes \$8,000 of deposits for next season. The 20x3 deposits of \$5,000 for the 20x4 summer season are currently recorded in the unearned revenue account. How much revenue should Christie's show on its 20x4 statement of income?
- a) \$62,000
 - b) \$67,000
 - c) \$70,000
 - d) \$75,000

Question 2 (8 marks) (16 minutes)

Screenfix Ltd. uses a perpetual inventory system. The following transactions were incurred during the month of October 20x2. Prepare journal entries to record the transactions for Screenfix for the month of October.

1. Cash sales amounted to \$80,000 and credit sales amounted to \$230,000. The company offers credit customers a sales discount of 2/10, n30. The cost of the merchandise sold equalled \$125,000.
2. The company purchased merchandise on account costing \$105,000. The merchandise was FOB shipping point, and the supplier offers a purchase discount of 1/15, n20.
3. Screenfix paid \$2,000 cash in shipping costs to have the merchandise purchased in transaction (2) delivered.
4. Customers paid for 50% of the credit sales made during the month, taking advantage of the sales discount in transaction (1).
5. Screenfix paid for all of the merchandise purchased during the month. All payments were made within the discount period in transaction (2).

Question 3 (10 marks) (20 minutes)

The following information concerns one of a company's products, the Hawkeye:

<i>Date</i>	<i>Transaction</i>	<i>Quantity</i>	<i>Price/Cost</i>
Jan 1	Beginning Inventory	3,000	\$12
Feb 5	Purchase	2,000	18
Feb 20	Sale	2,500	30
Apr 2	Purchase	3,000	23
Nov 4	Sale	2,000	33

Calculate the value of the ending inventory assuming the company uses:

- (a) periodic FIFO
- (b) perpetual moving average

Question 4 (6 marks) (12 minutes)

The Adams Company entered into a three year service contract on December 31, 20x3 for \$2,500,000. Data relating to the contract is as follows:

	<i>20x4</i>	<i>20x5</i>
Costs incurred during the year	\$450,000	\$1,160,000
Estimated costs to complete the contract	1,350,000	690,000

Required -

Calculate the amount of revenue that will be recorded on this contract for the years ended December 31, 20x4 and 20x5.

Question 5 (20 marks) (40 minutes)

Katie Ireton decided to open up her own yoga studio and incorporated her new business, Yoga Village Inc. (YV), on July 1, 20x3. She invested \$20,000 of her own funds and took back 100 common shares in return. She also obtained a 3 year bank loan for \$50,000 on July 1st. The loan bears interest of 6%. The interest is due annually on June 30th. She has decided that December 31st will be the business' year end.

The following information is also available:

- 1) On July 1st, 20x3, YV entered into a 1 year lease for studio space. It paid the first and last month rent on that day. Monthly rent is \$2,000.
- 2) On July 3rd, 20x3, equipment was purchased for \$10,000 with cash. It is expected to have a 5 year useful life and no salvage value. They plan to use straight-line depreciation.
- 3) On July 5th, 20x3, office supplies of \$650 were purchased on account. At year end, there are \$350 of office supplies still on hand.
- 4) On July 28th, 20x3, the insurance premium of \$3,000 was paid with cash. The insurance covers the period August 1st –July 31st.
- 5) Annual yoga memberships went on sale to the public on August 1st. 50 people bought such memberships for \$1,100 on that day with cash. No other annual memberships were purchased in 20x3.
- 6) On December 15th, 20x3, YV declared a dividend of \$4,000. It has not yet been paid.
- 7) On December 31st, 20x3, YV paid the dividend declared on December 15th.

Required –

Record all necessary initial and adjusting journal entries for the accounting events described above.

SOLUTION**Question 1 – 18 marks; each question is worth 2 marks**

1. c
2. c
3. a
4. b
5. c
6. a
7. d
8. d
9. b

Question 2 – 8 marks

1.	Cash	\$80,000	
	Accounts receivable	230,000	
	Sales		310,000
	1 mark		
	COGS	125,000	
	Inventory		125,000
	1 mark		
2.	Inventory	105,000	
	Accounts Payable		105,000
	1 mark		
3.	Inventory	2,000	
	Cash		2,000
	1 mark		
4.	Cash ($\$115,000 \times 0.98$)	112,700	
	Sales discounts	2,300	
	Accounts Receivable		115,000
	2 marks		
5.	Accounts Payable	105,000	
	Cash ($105,000 \times 0.99$)		103,950
	Purchase discounts taken		1,050
	2 marks		

Question 3 10 marks

a. Ending balance = 3,500 units **1 mark**

$$3,000 \text{ units} \times \$23 = \$69,000 \quad \mathbf{1 \text{ mark}}$$

$$+ 500 \text{ units} \times \$18 = \$9,000 \quad \mathbf{1 \text{ mark}}$$

$$\text{Total} = \$78,000$$

b.

	<i>Purchases (Sales)</i>			<i>Balance</i>			
	<i>Date</i>	<i>Units</i>	<i>Unit Cost</i>	<i>Total Cost</i>	<i>Units</i>	<i>Unit Cost</i>	<i>Total Cost</i>
	Jan 1				3,000	\$12.00	\$36,000
2	Feb 5	2,000	18.00	36,000	5,000	14.40	72,000
2	Feb 20	(2,500)	14.40	(36,000)	2,500		36,000
2	Apr 2	3,000	23.00	69,000	5,500	19.09	105,000
2	Nov 4	(2,000)	19.09	(38,180)	3,500		66,820

Question 4 6 marks

20x4 –

$$\% \text{ of completion} = \$450,000 / (450,000 + 1,350,000)$$

$$= \$450,000 / 1,800,000 = 25\%$$

1 mark

$$\text{Revenues to be realized} = \$2,500,000 \times 25\% = \$625,000$$

1 mark

20x5 –

% of completion

$$= \$450,000 + 1,160,000 / (450,000 + 1,160,000 + 690,000)$$

$$= 1,610,000 / 2,300,000 = 70\%$$

2 marks

$$\text{Revenues to be realized} = \$2,500,000 \times (0.70 - 0.25) = \$1,125,000$$

2 marks

Question 5

a) Cash	\$20,000		
Common Shares		\$20,000	1
b) Cash	\$50,000		
Bank Loan		\$50,000	1
<i>At year end</i>			
Interest Expense	\$1,500		
Interest Payable		\$1,500	2
$\$50,000 * 6\% * 6/12$			
c) Prepaid Rent	\$4,000		
Cash		\$4,000	1
<i>At year end (or after first month)</i>			
Rent	\$2,000		
Prepaid Rent		\$2,000	2
d) Equipment	\$10,000		
Cash		\$10,000	1
<i>At year end:</i>			
Depreciation Expense	\$1,000		
Accumulated Depreciation		\$1,000	1
$\$10,000/5 * 6/12$			
e) Office Supplies	\$650		
Accounts Payable		\$650	1
<i>At year end:</i>			
Supplies Expense	\$300		
Office Supplies		\$300	2
$\$650 - \350			
f) Prepaid Insurance	\$3,000		
Cash		\$3,000	1
<i>At year end:</i>			
Insurance Expense	\$1,250		
Prepaid Insurance		\$1,250	2

	\$3000 * 5/12		
g) Cash	\$55,000		
Unearned Revenue		\$55,000	1
50 * \$1100			
<i>At year end:</i>			
Unearned Revenue	\$22,917		
Revenues		\$22,917	2
\$55,000 * 5/12			
h) Retained Earnings	\$4,000		
Dividends Payable		\$4,000	1
i) Dividends Payable	\$4,000		
Cash		\$4,000	1

Question 3 – Part 1

Sports R Us Company
 Statement of Income
 for the year ended October 31, 20x3
mark for heading section

Marks

Sales	\$ 405,000	
Cost of Goods Sold	<u>288,000</u>	
Gross Profit	117,000	1
Operating Expenses		
Advertising	15,000	
Depreciation	6,000	
Rent	22,000	
Wages	<u>41,000</u>	
	84,000	2
Operating Income	33,000	
Interest Expense	<u>4,500</u>	
Net Income Before Taxes	28,500	1
Income Taxes Expense (35%)	9,975	1
Net Income	<u><u>\$ 18,525</u></u>	

Mark for attempting

1

Mark for general formatting

1