



**ADM 1340
 ALL SECTIONS
 MID TERM EXAM
 Introductory Financial Accounting
 Winter 2015**

Time: 2 hours

Student Name: _____

Student #: _____

Section: _____ **Professor:** _____

READ CAREFULLY

Instructions

1. Answer all multiple choice questions in this exam. Put your answer directly on the Scantron Sheet provided. Failure to put your Last Name and Student id on the scantron sheet may mean you get zero marks. The exam is **not** to be removed from the examination room.
2. This exam is out of 66 marks and is 2 hours long. You should budget approximately 1.8 minutes per mark.
3. Please do **not** ask the invigilator or the professor any questions, as they will not be answered. State reasonable assumptions, if you feel they are necessary. Language dictionaries (non-electronic) are allowed if approved by the professor.
4. Non-programmable calculators are permitted. The use of electronic communication devices such as cell phones is strictly prohibited during the exam. **YOU MUST BRING PHOTO ID WITH YOU.** No photo ID means no exam.

Q1-22 1 mark per question	22 marks
Q23-44 2 marks per question	44 marks
TOTAL	66 marks

Statement of Academic Integrity:

The School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note:

An examination without this signed statement will not be graded and will receive a final exam grade of zero.

Select the best answer for each of the following multiple-choice items and enter your answer on the Scantron Sheet provided. Failure to use the Scantron Sheet will result in zero marks for Question No. 1. Only one answer will be accepted for each question. There is no penalty for guessing. No account will be taken of any explanations provided.

Questions 1 to 22 are each worth one mark.

1. Which of the following is generally *not* a guideline for recognizing revenue?

- (a) The sale or performance effort is substantially complete.
- (b) Collection is reasonably assured.
- (c) Management declares that revenue should be recognized.**
- (d) The amount is determinable.

2. Depreciation is the process of

- (a) valuing an asset at its fair value.
- (b) increasing the value of an asset over its useful life in a rational and systematic manner.
- (c) allocating the cost of a non-current asset to expense over its useful life.**
- (d) writing down an asset to its fair value each accounting period.

3. Adjusting entries are required

- (a) because some costs expire with the passage of time, but have not yet been recorded.**
- (b) when the company's profit is below budget.
- (c) when expenses are recorded in the period in which they are incurred.
- (d) when revenues are recorded in the period in which they are earned.

4. The primary difference between prepaid and accrued expenses is that prepaid expenses have

- (a) been incurred and accrued expenses have not.
- (b) not been paid and accrued expenses have.
- (c) been paid and accrued expenses have not.**
- (d) not been recorded and accrued expenses have.

5. On July 10, Swant Inc. purchased \$1,000 of inventory on terms of 2/10, n/45. The amount due on August 25 is

- (a) \$1,020.
- (b) \$1,000.**
- (c) \$980.
- (d) \$990.

6. Under a perpetual inventory system, purchase of inventory is recorded as a debit to the

- (a) Supplies account.
- (b) Purchases account.
- (c) Merchandise Inventory account.**
- (d) Cost of Goods Sold account.

7. The journal entry by the buyer to record a return of merchandise purchased on account under a perpetual inventory system would credit

- (a) Accounts Payable.
- (b) Purchase Returns and Allowances.
- (c) Sales.
- (d) Merchandise Inventory.**

8. If a purchaser using a perpetual inventory system pays freight costs, then the

- (a) Merchandise Inventory account is increased.**
- (b) Merchandise Inventory account is not affected.
- (c) Freight Out account is increased.
- (d) Freight In account is increased.

9. Which of the following statements is not true?
- (a) Canadian public corporations must use international financial reporting standards.
 - (b) Private corporations can choose to use either international financial reporting standards (IFRS) or accounting standards for private enterprises (ASPE).
 - (c) Both public and private corporations issue shares.
 - (d) All private corporations are small.**
10. Repayment of non-current notes payable is an example of a (an)
- (a) operating activity.
 - (b) financing activity.**
 - (c) investing activity.
 - (d) delivery activity.
11. Dividends
- (a) increase assets.
 - (b) increase expenses.
 - (c) decrease revenues.
 - (d) decrease retained earnings.**
12. Shareholders' equity is usually comprised of
- (a) common shares and dividends.
 - (b) common shares and retained earnings.**
 - (c) dividends and retained earnings.
 - (d) profit and retained earnings.
13. To determine how much of a company's cumulative profits has been distributed to its shareholders, one would refer to the
- (a) statement of financial position.
 - (b) notes to the financial statements.
 - (c) statement of cash flows.
 - (d) statement of changes in equity.**
14. On a classified statement of financial position, prepaid expenses are classified as
- (a) a current liability.
 - (b) property, plant, and equipment.
 - (c) a current asset.**
 - (d) a long-term investment.
15. Current liabilities are expected to be
- (a) converted to cash within one year.
 - (b) paid within one year.**
 - (c) used in the business within one year.
 - (d) acquired within one year.
16. Which of the following is not considered to be an asset?
- (a) equipment
 - (b) dividends**
 - (c) accounts receivable
 - (d) inventory
17. Liabilities are generally classified on a statement of financial position as
- (a) small liabilities and large liabilities.
 - (b) present liabilities and future liabilities.
 - (c) tangible liabilities and intangible liabilities.
 - (d) current liabilities and non-current liabilities.**

18. The going concern assumption assumes that the business
- (a) will be liquidated in the near future.
 - (b) will be purchased by another business.
 - (c) is in a growth industry.
 - (d) will remain in operation for the foreseeable future**

19. A company's first event in 2014 was to pay \$3,000 cash for rent on its store for the first month of 2014. Which of the following is a complete and correct description of the effects of this event?

- a) Assets went down \$3,000; liabilities were not affected
- b) Assets went down \$3,000; income for 2014 went down \$3,000
- c) Income for 2014 went down \$3,000; shareholders equity went down \$3,000
- d) Assets went down \$3,000, income for 2014 went down \$3,000 shareholders' equity went down \$3,000; liabilities were not affected**

20. Purchasing a building for \$500,000 by paying cash of \$100,000 and signing a note payable for \$400,000 will

- a) Increase both total assets and total liabilities by \$400,000**
- b) Increase both total assets and total liabilities by \$500,000
- c) Decrease total assets, and increase total liabilities by \$100,000
- d) Decrease both total assets and total liabilities by \$100,000

21 If the credit to record the payment of an account payable is not posted,

- a) Liabilities will be understated
- b) Expenses will be understated
- c) Cash will be overstated**
- d) Cash will be understated

22 Nadia Samosas Inc. has cash of \$20,000, receivables of \$15,000 and equipment of \$85,000. It owes \$30,000 on account and has a \$60,000 note payable. How much is shareholders' equity?

- a) \$120,000
- b) \$60,000
- c) \$90,000
- d) \$30,000**

Questions 23 to 44 are each worth two marks.

23. The Town Laundry purchased \$5,500 worth of laundry supplies on June 2 and recorded the purchase as an asset. On June 30, an inventory of the laundry supplies indicated only \$3,000 on hand. Assuming a beginning supplies balance of \$0, the adjusting entry that should be made by the company on June 30 is

- (a) debit Laundry Supplies Expense, \$3,000; credit Laundry Supplies, \$3,000.
- (b) debit Laundry Supplies Expense, \$2,500; credit Laundry Supplies, \$2,500.**
- (c) debit Laundry Supplies, \$2,500; credit Laundry Supplies Expense, \$2,500.
- (d) debit Laundry Supplies, \$3,000; credit Laundry Supplies Expense, \$3,000.

24. The Sayonara Corporation purchased a notebook computer for \$3,000 on December 1. The useful life of the notebook computer is estimated to be 5 years. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:

- (a) debit Depreciation Expense, \$600; credit Accumulated Depreciation, \$600.
- (b) debit Depreciation Expense, \$50; credit Accumulated Depreciation, \$50.**
- (c) debit Depreciation Expense, \$2,400; credit Accumulated Depreciation, \$2,400.
- (d) debit Office Equipment, \$50; credit Accumulated Depreciation, \$50.

25. McCloud Realty received a cheque for \$21,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$21,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31:

- (a) debit Unearned Rental Revenue, \$3,500; credit Rental Revenue, \$3,500.**
- (b) debit Rental Revenue, \$3,500; credit Unearned Rental Revenue, \$3,500.
- (c) debit Unearned Rental Revenue, \$21,000; credit Rental Revenue, \$21,000.
- (d) debit Cash, \$3,500; credit Rental Revenue, \$3,500.

26. If Bee Corp. fails to adjust the Unearned Rent account for rent that has been earned, what effect will this have on that month's financial statements?

- (a) Assets will be understated and revenues will be understated.
- (b) Liabilities will be understated and revenues will be understated.
- (c) Liabilities will be overstated and revenues will be understated.**
- (d) Assets will be overstated and revenues will be understated.

27. If equipment with a 5-year life was purchased on July 1, 2015 for \$60,000, by December 31, 2016,

- (a) the accumulated depreciation would be \$12,000 and the carrying amount would be \$48,000.
- (b) the accumulated depreciation would be \$40,000 and the carrying amount would be \$20,000.
- (c) the accumulated depreciation would be \$30,000 and the carrying amount would be \$30,000
- (d) the accumulated depreciation would be \$18,000 and the carrying amount would be \$42,000**

28. Mountain Corp. sells merchandise on account for \$2,000 to Cliff Corp., terms 2/10, n/30. Cliff returns \$800 worth of merchandise that was damaged, along with a cheque to settle the account within the discount period. What entry does Mountain make upon receipt of the cheque?

- | | | | |
|-----|--|--------------|--------------|
| (a) | Cash..... | 1,200 | |
| | Accounts Receivable | | 1,200 |
| (b) | Cash..... | 1,160 | |
| | Sales Returns and Allowances..... | 784 | |
| | Sales Discounts..... | 32 | |
| | Accounts Receivable | | 2,000 |
| (c) | Cash | 1,176 | |
| | Sales Returns and Allowances..... | 800 | |
| | Sales Discounts..... | 24 | |
| | Accounts Receivable..... | | 2,000 |
| (d) | Cash..... | 1,160 | |
| | Sales Discounts..... | 40 | |
| | Sales Returns and Allowances..... | 800 | |
| | Accounts Receivable | | 2,000 |

Use the following information to answer questions 29–30.

Cost of goods sold.....	\$217,000
Income tax expense.....	33,600
Operating expenses.....	172,000
Sales.....	550,000
Sales discounts.....	12,000
Sales returns and allowances.....	37,000

29. The amount of net sales on the income statement would be

- (a) **\$501,000.**
- (b) \$538,000.
- (c) \$513,000.
- (d) \$550,000.

30. Gross profit would be

- (a) \$112,000.
- (b) **\$284,000.**
- (c) \$378,000.
- (d) \$501,000.

31. Benz Inc. shows the following account balances for last month:

Freight In.....	\$ 1,875
Freight Out.....	2,500
Purchases.....	28,000
Purchase Discounts.....	2,500
Sales Returns and Allowances.....	4,000

The cost of goods purchased for last month is

- (a) \$25,875.
- (b) **\$27,375.**
- (c) \$29,875.
- (d) \$30,500.

Use the following information to answer question 32.

For last month, the following data were taken from the ledger of Drillbit Inc.:

Beginning Inventory.....	\$ 21,500
Ending Inventory.....	16,200
Freight In.....	1,150
Purchases.....	112,000
Purchase Discounts.....	750
Purchase Returns and Allowances.....	1,900

32. What was the cost of goods purchased?

- (a) \$110,100
- (b) \$109,350
- (c) **\$110,500**
- (d) \$108,200

Use the following information to answer questions 33–36.

Accounts payable.....	\$10,000
Accounts receivable.....	14,000
Cash.....	10,000
Common shares.....	28,000
Dividends paid.....	6,000
Income tax expense.....	4,500
Office equipment.....	30,000
Office supplies.....	2,800

Office supplies expense	3,500
Rent expense	3,000
Retained earnings, beginning of period	15,000
Salaries expense	7,000
Service revenue	28,500
Utilities expense	700

33. The amount of profit on the income statement would be:

- (a) 28,500
- (b) 14,300
- (c) 9,800**
- (d) 10,500

34. The ending balance of total equity on the statement of changes in equity would be:

- (a) 46,800**
- (b) 18,800
- (c) 43,000
- (d) 52,800

35. The amount of total liabilities on the statement of financial position would be :

- (a) 14,000
- (b) 10,000**
- (c) 24,000
- (d) 56,800

36. The amount of total assets on the statement of financial position would be:

- (a) 10,000
- (b) 24,000
- (c) 54,000
- (d) 56,800**

The following information is extracted from West Co.'s financial statements for the fiscal year ended at December 31, 2014. West Co. did not issue new shares or repurchase shares during 2014. Neither did the company declare any dividends in the year of 2014. Please answer questions 37-40.

Current assets	\$18,000	Net sales	\$40,000
Noncurrent assets	\$20,000	Current liabilities	\$9,000
Share capital	\$6,000	Profit	\$1,000
Cost of goods sold			\$35,000
Retained earnings (as at Dec.31, 2014)			\$4,000

37. What is the total amount of shareholders' equity as at December 31, 2014?

- (a) \$9,000
- (b) \$6,000
- (c) \$19,000
- (d) \$10,000**

38. What is the total amount of noncurrent liabilities as at December 31, 2014?

- (a) \$9,000
- (b) \$28,000
- (c) \$19,000**
- (d) \$10,000

39. What is the balance of retained earnings at the beginning of the fiscal year 2014?

- (a) \$4,000
- (b) \$3,000**
- (c) \$2,000
- (d) \$1,000

40. What is the gross profit for the fiscal year 2014?

- (a) \$5,000**
- (b) \$3,000
- (c) \$4,000
- (d) \$1,000

41. Even though a company's trial balance column totals were equal at \$50,000, the following errors occurred in the recording process. Which of these errors when corrected will change the column totals of the trial balance?

- a) A \$6,000 deposit from a customer for services to be delivered in the following month was incorrectly recorded as revenue.
- b) Cash paid for equipment of \$2,000 was incorrectly recorded as purchase on account.**
- c) \$4,000 cash dividends paid were incorrectly recorded as rent expense.
- d) None of the above

42. Which of the following statements is correct?

- a) A company reported a retained earnings balance of \$100,000 on its balance sheet. This means that the entire \$100,000 in cash was definitely available to the company for business activities
- b) The retained earnings balance listed on a company's trial balance to prepare financial statements represents the Retained Earnings balance at the end of the reporting period
- c) Since both cash dividends and expenses have the same effect on shareholder's equity, both are reported on the income statement
- d) Depreciation expense debited to accumulated depreciation account, in effect, increases the total asset balance on the balance sheet**

43. Given below are five of the transactions recorded by Sarah company whose fiscal year ended on December 31, 2014. Which transaction was incorrectly journalized?

- a) \$5,000 was paid on January 1, 2014 for a 5-year insurance policy effective January 1, 2014:

January 1:	Prepaid Insurance	5,000	
	Cash		5,000

- b) Sarah Company owed \$6,000 for salaries as at December 31, 2014. On the first payday on January 8, 2015, total salaries of \$12,000 was paid and on that date the journal entry made was:

January 8:	Salaries payable	6,000	
	Salaries expense	6,000	
	Cash		12,000

- c) \$3,000 cash was paid on March 9, 2014 for the security deposit on a store lease:

March 9:	Security Deposit Receivable	3,000	
	Cash		3,000

- d) **\$4,000 cash was collected on November 1, 2014 from customers before any goods or services were provided:**

November 1:	Cash	4,000	
	Revenue		4,000

44. During the year ended December 31, 2014, Shaan Inc. received \$25,000 cash from clients. At December 31, 2013, clients owed Shaan \$6,000 for services provided in 2013. On December 31, 2014 clients owed Shaan \$3,900 for services provided in 2013. What was the service revenue for 2014 under accrual accounting?

- a) \$19,000
b) \$22,900
 c) \$31,000
 d) \$34,900