



VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

MIDTERM EXAM SOLUTION

COURSE TITLE: FINANCIAL ACCOUNTING

Date of the exam: February 28, 2016.

Time: 13:00 to 15:00

Professors: Chourou, Ding, Gandhi, Himick, Musselman.

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. The use of electronic communication devices such as cell phones is strictly prohibited during the exam.
5. Calculators **are** permitted.

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

NAME: _____

STUDENT #: _____

SECTION: _____



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Statement of Academic Integrity

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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.

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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. Only one answer will be accepted for each question. There is no penalty for guessing.

Questions 1 to 22 are each worth one mark.

1. Which of the following would *not* be considered an external user of accounting data?

- (a) Canada Revenue Agency
- (b) management**
- (c) creditors
- (d) customers
- (e) None of the above

2. A business organized as a corporation

- (a) is not a separate legal entity in most provinces.
- (b) requires that shareholders be personally liable for the debts of the business.
- (c) is owned by its shareholders.**
- (d) has income tax disadvantages over a proprietorship or partnership.
- (e) None of the above

3. Which of the following statements is *not* true?

- (a) 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.**
- (e) None of the above

4. Which of the following activities involves raising the necessary funds to support the business?

- (a) operating
- (b) investing
- (c) financing**
- (d) marketing
- (e) None of the above

5. Dividends

- (a) increase assets.
- (b) increase expenses.
- (c) decrease revenues.
- (d) decrease retained earnings.**
- (e) None of the above



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6. The accounting equation may be expressed as

- (a) $\text{Assets} = \text{Shareholders' Equity} - \text{Liabilities}$.
- (b) $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$.**
- (c) $\text{Assets} + \text{Liabilities} = \text{Shareholders' Equity}$.
- (d) $\text{Assets} + \text{Shareholders' Equity} = \text{Liabilities}$.
- (e) None of the above

7. In order for accounting information to be relevant, it must

- (a) have very little cost.
- (b) help predict future events or confirm prior expectations.**
- (c) be verifiable.
- (d) be used by a lot of different organizations.
- (e) None of the above

8. On a classified Statement of Financial Position, prepaid expenses are classified as:

- (a) A current liability
- (b) A current asset**
- (c) A non-current asset
- (d) A non-current liability
- (e) None of the above

9. Which of the following is **not** true about accumulated depreciation account?

- (a) It does not appear on the Income Statement
- (b) It is a contra asset account
- (c) Its balance is subtracted from the balance of the asset that it relates to in order to calculate the assets' carrying amount.
- (d) It is shown in the current assets section of the Statement of Financial Position**
- (e) None of the above

10. Which of the following is **not** true?

- (a) The cost basis of accounting states that assets and liabilities should be recorded at their cost at the time of acquisition (i.e. at their historical costs)
- (b) Fair value rather than cost is a more relevant measure for certain types of assets and liabilities to be reported.
- (c) The going concern assumption is essential to the way we record items in the financial statements
- (d) The cost basis of accounting states that the value of information must exceed the cost of producing it.**



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(e) None of the above

11. Collection of a \$1,500 accounts receivable

(a) increases an asset \$1,500; decreases a liability \$1,500.

(b) decreases a liability \$1,500; increases shareholders' equity \$1,500.

(c) decreases an asset \$1,500; decreases a liability \$1,500.

(d) has no effect on total assets.

(e) None of the above

12. If services are performed on credit, then

(a) assets will decrease.

(b) liabilities will increase.

(c) shareholders' equity will increase.

(d) liabilities will decrease.

(e) None of the above

13. The purchase of an asset on credit

(a) increases assets and shareholders' equity.

(b) increases assets and liabilities.

(c) decreases assets and increases liabilities.

(d) has no effect on total assets.

(e) None of the above

14. If the totals of a trial balance are *not* equal, it could be due to

(a) a failure to record or post a transaction.

(b) recording the same incorrect amount for both the debit and the credit parts of a transaction.

(c) an error in calculating the account balances.

(d) recording the transaction more than once.

(e) None of the above

15. 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.

(e) None of the above



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16. In general, revenue recognition occurs

- (a) when cash is received.
- (b) when it is earned.**
- (c) when expenses are incurred.
- (d) in the period that income taxes are paid.
- (e) None of the above

17. Which one of the following is *not* a justification for adjusting entries?

- (a) Adjusting entries are necessary to ensure that revenue recognition criteria are followed.
- (b) Adjusting entries are necessary to ensure that expense recognition criteria are followed.
- (c) Adjusting entries are necessary to enable financial statements to be in conformity with IFRS or ASPE.
- (d) Adjusting entries are necessary to bring the general ledger accounts in line with the budget.**
- (e) None of the above

18. 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.
- (e) None of the above

19. Generally, the revenue account for a merchandising company is called

- (a) Sales Revenue or Sales.**
- (b) Investment Revenue.
- (c) Gross Profit.
- (d) Net Sales.
- (e) None of the above

20. Under a perpetual inventory system

- (a) there is no need for a year-end physical count.
- (b) increases in inventory resulting from purchases are debited to Purchases.
- (c) accounting records continuously disclose the amount of inventory.**
- (d) the account Purchase Returns and Allowances is credited when goods are returned to vendors.
- (e) None of the above



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21. Net sales less cost of goods sold is called

- (a) **gross profit.**
- (b) operating profit.
- (c) profit.
- (d) profit before income taxes.
- (e) None of the above

22. Which of the following accounts has a normal credit balance?

- (a) Purchases
- (b) Sales Returns and Allowances
- (c) Freight In
- (d) **Purchase Discounts**
- (e) None of the above



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Questions 23 to 44 are each worth two marks.

23. Kareem's Rental Ltd. started the year with total assets of \$70,000 and total liabilities of \$40,000. During the year, the business recorded \$100,000 in car repair revenues, \$65,000 in expenses, and paid dividends of \$5,000. Shareholders' equity at the end of the year was

- (a) **\$60,000.**
- (b) \$65,000.
- (c) \$70,000.
- (d) \$75,000.
- (e) None of the above

24. If total liabilities increased by \$15,000 and shareholders' equity increased by \$15,000 during a period of time, then total assets must change by what amount and direction (increase or decrease) during that same period?

- (a) \$15,000 decrease
- (b) \$15,000 increase
- (c) \$30,000 decrease
- (d) **\$30,000 increase**
- (e) None of the above

25. Suppose Shaan Corporation borrows \$10 million on a 10-year loan payable. How does this transaction affect the company's liquidity and solvency ratios?

- (a) Improves both ratios
- (b) **Improves the liquidity ratio and hurts the solvency ratio.**
- (c) Hurts both ratios.
- (d) Hurts the liquidity ratio and improves the debt ratio.
- (e) None of the above

26. A company has \$6 million in long-term debt outstanding which it expects to repay evenly over the next four years. Which of the following represents how it will be shown on the year-end balance sheet?

- (a) Long-term debt: \$6 million
- (b) Account payable: \$1.50 million; long-term debt; \$4.50 million
- (c) **Current portion of long-term debt: \$1.50 million, long term debt: \$4.50 million**
- (d) Current portion of long-term debt: \$3 million, long-term debt: \$3 million
- (e) None of the above

27. Which of the following statements is false?

- (a) It is more worthwhile to compare the current ratios of competitors within an industry than the current ratios of companies operating in different industries.



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- (b) Intercompany comparisons of earning per share are not very meaningful.
- (c) The price-earnings (P-E) ratio is a profitability ratio used by investors for valuation purposes.
- (d) Unearned revenues are classified as current liabilities that have to be settled with cash.**
- (e) None of the above

Use the following information to answer questions 28 and 29:

Cash	\$5,100	Account receivable	\$12,000
Accounts Payable	16,380	Ten-year mortgage payable	10,000
Equipment	110,000	Dividend payable	600
Inventory	8,500	Trading investments	3,200
Five-year note payable	25,000	Accumulated depreciation	50,000
Common shares	20,000	Retained earnings	6,720
Prepaid rent	800	Salaries payable	6,000

28. Current assets amounted to:

- (a) \$29,980
- (b) \$29,600**
- (c) \$26,400
- (d) \$25,600
- (e) None of the above

29. Current liabilities amounted to:

- (a) \$32,980
- (b) \$18,600
- (c) \$16,600
- (d) \$22,980**
- (e) None of the above

30. Which of the following correctly identifies the normal balances of accounts?

- (a) Assets Debit
- Liabilities Credit
- Common Shares Credit
- Revenues Debit
- Expenses Credit
- (b) Assets Debit
- Liabilities Credit
- Common Shares Credit
- Revenues Credit
- Expenses Credit



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(c) Assets Credit
Liabilities Debit
Common Shares Debit
Revenues Credit
Expenses Debit

(d) Assets Debit
Liabilities Credit
Common Shares Credit
Revenues Credit
Expenses Debit

31. The entry to record employee salaries (not yet paid) of \$4,000 would be

- (a) a debit to Salaries Payable for \$4,000 and a credit to Cash for \$4,000
- (b) a debit to Salaries Expense for \$4,000 and credit to Cash for \$4,000.
- (c) a credit to Salaries Payable for \$4,000 and a debit to Cash for \$4,000
- (d) a credit to Salaries Expense for \$4,000 and a debit to Cash for \$4,000.
- (e) None of the above.**

32. The company purchases a two-month supply of office supplies on account. This transaction will be recorded as

- (a) a debit to Cash and a credit to Supplies Expense.
- (b) a debit to Supplies and a credit to Cash.
- (c) a debit to Accounts Receivable and a credit to Supplies.
- (d) a debit to Supplies and a credit to Accounts Payable.**
- (e) None of the above

33. Mackay Corporation moved into its new premises on November 1, 2015. At that time, it paid \$6,000 for a one-year insurance policy. On November 1, 2015, how should the corporation have recorded this transaction in its accounting records?

- (a) A debit to Prepaid Insurance and a credit to Cash**
- (b) A debit to Insurance Expense and a credit to Cash
- (c) A credit to Insurance Revenue and a debit to Cash
- (d) A debit to Cash and a credit to Insurance Expense
- (e) None of the above



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34. Kent Bowling Lanes operates a ten-lane bowling alley in a quiet area of town. The manager recently implemented a marketing campaign in order to increase sales. The campaign resulted in the sale of 100 coupon booklets for \$25 each. Each booklet contains six coupons enabling the holder to play six games of bowling. What would be the journal entry to record the sale of the coupon booklets?

- (a) a debit to Cash for \$2,500 and a credit to Service Revenue for \$2,500
- (b) a debit to Service Revenue for \$2,500 and a credit to Cash for \$2,500
- (c) a credit to Unearned Revenue for \$2,500 and a debit to Cash for \$2,500**
- (d) a credit to Service Revenue for \$2,500 and a debit to Unearned Revenue for \$2,500
- (e) None of the above

35. 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. 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.
- (e) None of the above

36. 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.
- (e) None of the above

37. At December 31, 2015, before any year-end adjustments, Ubanigi Corp.'s Insurance Expense account had a balance of \$725 and its Prepaid Insurance account had a balance of \$2,900. It was determined that \$1,500 of the Prepaid Insurance had expired. The *adjusted balance* for Insurance Expense for the year would be

- (a) \$2,225.**
- (b) \$1,500.
- (c) \$1,125.
- (d) \$ 725.
- (e) None of the above



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38. On September 1, Starr Guitar Corp. borrowed \$24,000 from their bank, and signed a 8%, 3-month bank loan. Principal and interest are due on December 1. If Starr prepares monthly financial statements, the adjusting entry that they should prepare for interest on September 30 would be

- (a) debit Interest Expense, \$160; credit Interest Payable, \$160.
- (b) debit Interest Expense, \$1,920; credit Interest Payable, \$1,920.
- (c) debit Bank Loan Payable, \$480; credit Cash, \$480.
- (d) debit Cash, \$24,000; credit Bank Loan Payable, \$24,000.
- (e) None of the above

39. Sally’s Skateboard Shop has a weekly payroll of \$9,000 and pays its employees every Friday. None of the staff work on weekends. This year, the last day of the company’s fiscal year-end is a Wednesday. What is the correct adjusting entry to accrue salaries expense?

- (a) Salaries Expense..... 1,800
 Salaries Payable 1,800
- (b) Salaries Expense 5,400
 Salaries Payable 5,400**
- (c) Salaries Expense..... 5,400
 Cash..... 5,400
- (d) Salaries Expense..... 9,000
 Salaries Payable 9,000
- (e) None of the above

Telfer Inc. is family owned firm headquartered in Ottawa, Ontario. The company sells its products to customers in Ontario and Quebec, and completed the following transactions in October, 2015:

<u>Credit Sales</u>			<u>Sales Returns</u>		<u>Date of</u>
<u>Date</u>	<u>Amount</u>	<u>Terms</u>	<u>Date</u>	<u>Amount</u>	<u>Collection</u>
Oct 3	\$ 800	2/10, n/30			Oct 8
11	1,200	3/10, n/30	Oct 14	\$ 500	16
17	7,000	1/10, n/30	20	1,200	29
21	1,700	2/10, n/60	23	400	27
23	2,500	2/10, n/30	27	500	28

Telfer Inc. uses a perpetual inventory system.

Use the above information to answer the following three questions



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40. The cash received for the collection on October 8 is

- (a) **\$784**
- (b) \$800
- (c) \$816
- (d) \$799.38
- (e) None of the above

41. The merchandise sold on October 17 had a cost of \$3,500. The journal entry for the sale on October 17 is

(a)

Accounts Receivable	7,000	
Sales		7,000
Cost of Goods Sold	3,500	
Merchandise Inventory		3,500

(b)

Cash	7,000	
Sales		7,000
Sales Expense	3,500	
Merchandise Inventory		3,500

(c)

Accounts Receivable	6,300	
Sales		6,300
Cost of Goods Sold	3,500	
Merchandise Inventory		3,500

(d)

Cash	6,930	
Sales		6,930
Operating Expenses	3,500	
Merchandise Inventory		3,500

- (e) None of the above



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42. The journal entry for collection on October 28 is

(a)

Cash	1,960	
Sales Discounts	40	
Accounts Receivable		2,000

(b)

Sales	1,960	
Sales Discounts	40	
Accounts Receivable		2,000

(c)

Cash	2,450	
Sales Discounts	50	
Sales		2,500

(d)

Cash	2,000	
Accounts Receivable		2,000

(e) None of the above

MBC Inc. uses a periodic inventory system. During April, 2015, the following transactions occurred:

- Apr 3 Purchased \$2,000 of merchandise, terms 3/10, n/60.
- 6 Returned \$300 of the merchandise purchased on April 3.
- 7 Paid freight charges of \$150 with cash on goods purchased on April 3.
- 12 Paid for the goods purchased on April 3.
- 13 Sold goods on credit for \$1,000, terms 2/10, n/45.
- 14 The customer of April 13 returned \$300 of the goods.
- 23 Received payment from the customer of April 13.

Use the above information to answer the following two questions



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43. The journal entry for purchase on April 3 is

(a)

Purchases	2,000	
	Accounts Payable	2,000

(b)

Inventory	2,000	
	Accounts Payable	2,000

(c)

Inventory	2,000	
	Cash	2,000

(d)

Purchases	2,000	
	Cash	2,000

(e) None of the above

44. The journal entry for payment of freight on April 7 is

(a)

Freight In	150	
	Cash	150

(b)

Inventory	150	
	Cash	150

(c)

Inventory	150	
	Accounts Payable	150

(d)

Freight In	150	
	Accounts Payable	150

(e) None of the above