

Solutions



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Midterm Exam

ADM 1340 X and Y
Financial accounting
Summer 2015

Professor: Dr. Dev Gandhi
Maximum Marks: 66

Time: 2 hours

NAME: _____

STUDENT NUMBER: _____

SIGNATURE: _____

GENERAL INSTRUCTIONS: Hand everything at the end of the exam period. **Use the space provided in the exam for your answers and relevant work; do not re-write the question in the solution space; identify the solutions clearly.** Always keep three decimals for all calculated results. No books or notes permitted. The use of calculators is permitted.

PART I	22
PART II	44
TOTAL	66

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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Note: an examination copy or booklet without that signed statement will not be graded and will receive a final exam grade of zero.

Note: You are welcome to ask me for clarifications of statements but not for definitions that you are expected to know. Please remember this is an exam. Formulas are attached.

GOOD LUCK!

PART ONE – Multiple choice (22 points)

1. Which financial statement(s) cover(s) a period?
 - a. Balance sheet
 - b. Income statement
 - c. Statement of cash flows
 - d. both b and c**

2. Activities that obtain cash needed to launch and sustain a company are:
 - a. income activities
 - b. investing activities**
 - c. financing activities**
 - d. marketing activities

3. Which of the following is **not** categorized as a financing activity:
 - a. Repayment of a bank loan
 - b. Paying dividends
 - c. Repurchasing shares
 - d. Selling goods on credit**

4. As at December 31, Sarla Corporation has assets of \$70,000 and liabilities of \$40,000. What is the shareholders equity of Sarla Corporation as at December 31?
 - a. \$70,000
 - b. \$110,000
 - c. \$30,000**
 - d. none of the above

5. The list of all accounts with their balances is the:
 - a. trial balance**
 - b. chart of accounts
 - c. journal
 - d. balance sheet

6. Adjusting entries:
 - a. are recorded at the end of an accounting period
 - b. are needed to measure the period's net income or net loss
 - c. do not affect the cash account
 - d. all of the above**

7. The account unearned revenue is a (n)
 - a. revenue
 - b. expense
 - c. non-financial liability**
 - d. asset

8. Which of the following is an indicator of a company's liquidity?
 - a. current ratio**
 - b. earnings per share
 - c. profit
 - d. price-earnings ratio

9. The cost basis of accounting states that:

- a. cost is more relevant than fair value
- b. assets should be reported at fair value
- c. assets should be reported at their historical cost
- d. the benefits should exceed the costs of providing information

10. Which of the following is **not** an accounting transaction to be recorded?

- a. signing a lease to occupy a building at a future date
- b. purchasing equipment on account
- c. issuing common shares
- d. paying dividend to shareholders

11. Credits normally:

- a. decrease both assets and liabilities
- b. increase both assets and liabilities
- c. decrease assets and increase liabilities
- d. increase assets and decrease liabilities

12. Purchasing goods from a supplier on credit creates a liability recorded as:

- a. account receivable
- b. account payable
- c. revenue
- d. expense

13. On which of the following statements are dividends reported?

- a. the income statement
- b. the statement of changes in equity
- c. the statement of financial position
- d. both the income statement and the statement of financial position

14. An intangible asset:

- a. has no physical substance
- b. has no value because it has no physical substance
- c. is not reported on the statement of financial position because it has no physical substance
- d. can not have a definite life

15. On a classified statement of financial position, prepaid expenses are classified as:

- a. non-current asset
- b. a current asset
- c. a current liability
- d. property, plant, and equipment

16. An equipment originally purchased at a cost of \$10,000 has accumulated depreciation of \$4,000. At what carrying amount will it be reported on the company's statement of financial position?

- a. \$10,000
- b. \$4,000
- c. \$14,000
- d. \$6,000

17. Repaying the principal amount of a bank loan:

- a. decreases an asset and decreases a liability
- b. decreases an asset and increases shareholders' equity
- c. decreases a liability and increases shareholders' equity
- d. increases shareholders' equity

18. At the year ended December 31, 2014, a company reported net income of \$10,000. The dividend paid during the year was \$3,000. The company's opening retained earnings balance at the start of the year on January 1, 2014 was \$9,000. What was the amount of retained earnings reported on the statement of financial position at the year's end?

- a. \$10,000
- b. \$7,000
- c. \$16,000
- d. \$19,000

19. During the year, Omar company's shareholders' equity increased from \$30,000 to \$40,000, Omar earned net income of \$15,000. How much in dividends did Omar declare in the year?

- a. \$6,000
- b. \$0
- c. \$8,000
- d. \$5,000

20. Alpha company made a \$1,000 purchase of merchandise inventory on September 12, under terms 2/10, n/30. On September 16, merchandise costing \$150 is returned. What amount will be paid if the payment is made in full on September 21?

- a. \$980
- b. \$833
- c. \$850
- d. none of the above

21. Which of the following is a contra revenue account that normally has a debit balance?

- a. Sales
- b. Sales returns and allowances
- c. Cost of goods sold
- d. Freight out

22. Which of the following would affect the gross profit margin?

- a. an increase in interest expense
- b. a decrease in depreciation expense
- c. an increase in cost of goods sold
- d. a decrease in freight out

PART TWO – Multiple choice (44 points)

1. Shaan Corporation holds cash of \$5,000 and owes \$25,000 on accounts payable. Shaan has accounts receivable of \$30,000, inventory of \$20,000, and land cost of \$50,000. How much are Shaan's total assets and shareholders' equity?

	<i>Total assets</i>	<i>Shareholders' equity</i>
a.	\$105,000	\$25,000
b.	\$105,000	\$80,000
c.	\$80,000	\$55,000
d.	\$80,000	\$105,000
e.	\$105,000	Cannot be determined from the data given

2. Assume that Seema Corporation sold goods to a department store for \$22,000 on account. Which parts of the accounting equation did this sale on account affect?

- a. Accounts receivable and accounts payable
- b. Accounts payable and cash
- c. Accounts payable and retained earnings
- d. Accounts receivable and retained earnings

3. A doctor purchases medical supplies of \$670 and pays \$200 cash with the rest on account. The journal entry for this transaction would be:

- a. Supplies \$670
 Accounts Payable \$470
 Cash \$200
- b. Supplies \$670
 Cash \$200
 Accounts Payable \$470
- c. Supplies \$670
 Cash \$200
- d. Supplies \$670
 Accounts Payable \$470
 Cash \$200

4. Which of the following errors can cause the trial balance to be out of balance?

- a. A debit entry is entered in the wrong debit account.
- b. An entire transaction is entered in the general journal as \$96 instead of \$69.
- c. The balance of an account is incorrectly computed.
- d. An entire transaction is not recorded in the journal.
- e. An entire journal entry is not posted to the ledger.

Use the following data for questions 10 and 11. Here are key figures from the comparative balance sheets of Dupuis Corp. at the ends of 2007 and 2006, respectively.

	December 31, 2007	December 31, 2006
Total assets (of which 40% are current)	\$3,000,000	\$2,500,000
Current liabilities	480,000	500,000
Bonds payable (long-term)	1,320,000	900,000
Common shares	500,000	500,000
Retained earnings	700,000	600,000
Total liabilities and shareholders' equity	3,000,000	2,500,000

10. Dupuis' current ratio at the end of 2007 is:

- a. 6.25
- b. 2.5**
- c. 3.75
- d. 2.24

11. Dupuis' debt ratio at the end of 2007 is:

- a. 42% (rounded)
- b. 17% (rounded)
- c. 60%**
- d. 40%

12. Suppose Maive Corporation borrows \$50 million on a 10-year note payable. How does this transaction affect Maive's ratios?

- a. Improves the current ratio and increases the debt ratio**
- b. Improves both ratios
- c. Hurts both ratios
- d. Hurts the current ratio and improves the debt ratio.

13. Assume that the weekly payroll of Siena Inc. is \$3,500. December 31, the end of the year falls on Tuesday, but the company won't pay employees for the full week until first Friday next month. What adjusting entry will Siena inc. make on Tuesday, December 31, assuming 5-day work week, Monday to Friday?

a. Salary expense	1,400	
Accumulated Salary		1,400
b. Salary expense	1,400	
Cash		1,400
c. Salary payable	1,400	
Salary expense		1,400
d. Salary expense	1,400	
 Salary payable		1,400

14. On January 1 of the current year, Sharif Company paid \$600 rent to cover months (January through June). Sharif recorded this transaction as follows:

Prepaid Rent	600	
Cash		600

Sharif adjusts the accounts at the end of each month. Based on these facts, the adjusting entry at the end of January should include:

- a. a credit to prepaid rent for \$500
- b. a debit to prepaid rent for \$500
- c. a debit to prepaid rent for \$100
- d. a credit to prepaid rent for \$100**

15. The unadjusted trial balance shows supplies \$2,700 and supplies expense \$0. If \$1,200 of supplies are on hand at the end of the period, the adjusting entry is:

a. Supplies	1,200	
Supplies expense		1,200
b. Supplies expense	1,200	
Supplies		1,200
c. Supplies	1,500	
Supplies expense		1,500
d. Supplies expense	1,500	
Supplies		1,500

16. In early September, a university received \$3 million from students for tuition in advance relating to the four-month fall terms covering the period September 1 to December 31. When the cash was received, the unearned Revenue account was credited for the full amount. What adjusting journal entry should the university record on September 30 when preparing financial statements for that month?

a. Tuition Revenue	750,000	
Unearned Revenue		750,000
b. Unearned Revenue	750,000	
Tuition Revenue		750,000
c. Unearned Revenue	2,250,000	
Tuition Revenue		2,250,000
d. Cash	750,000	
Tuition Revenue		750,000

17. To record the sale of goods for cash in a perpetual inventory system:

- a. only one journal entry is necessary to record the cost of goods sold and reduction of inventory.
- b. only one journal entry is necessary to record the receipt of cash and the sales revenue.
- c. two journal entries are necessary: one to record the receipt of cash and sales revenue for the selling price, and one to record the cost of the goods sold and reduction of inventory.
- d. two journal entries are necessary: one to record the receipt of cash and reduction of inventory for the selling price, and one to record the cost of the goods sold and sales revenue.

18. Beginning inventory is \$22,500; purchases a \$230,000; purchase returns and allowance a \$15,000; freight in is \$3,750; and ending inventory is \$65,000. What is the cost of goods sold under a periodic inventory system?

- a. \$223,750
- b. ~~\$208,750~~
- c. \$205,000
- d. \$186,250 ←

19. What is the effect on the financial statements of recording depreciation on equipment?

- a. Assets are decreased, but net income and shareholders' equity are not affected
- b. Net income, assets, and shareholders' equity are all decreased
- c. Net income and assets are decreased, but shareholders' equity is not affected
- d. Net income is not affected, but assets and shareholders' equity are decreased

20. Which of the following accounts would not be included in the closing entries?

- a. Accumulated depreciation
- b. Service Revenue
- c. Depreciation expense
- d. Retained earnings

21. Gandhi inc., a consulting services company, prepares monthly financial statements. It earned but did not bill for \$500 service revenue during the month of May, 2015. Which of the following represents the correct journal entry for the month ended May 31, 2015?

a. Account receivable	500	
Service revenue		500
b. Service revenue	500	
Accounts receivable		500
c. Accounts receivable	500	
Accounts payable		500
d. Accounts payable	500	
Accounts receivable		500

22. Refer to the information provided in the previous Question 21 and assume that in the next accounting period, on June 20, Gandhi inc. collects \$3,000 of service revenue from clients. Of this amount, \$2,500 relates to services provided for cash for the first 20 days of June, 2015. Which of the following represents correct journal entry on June 20?

a. Cash 3,000
 Service Revenue 3,000

b. Service revenue 3,000
 Cash 3,000

c. Cash 3,000
 Accounts receivable 500
 Service revenue 2,500

d. Accounts Receivable 500
 Service Revenue 2,500
 Cash 500