

Midterm Examination

ADM 1340

Sections A, B, C & D.

Financial Accounting

Fall 2014

Time: **2 hours**

Student Name: _____

Student #: _____

Section: **A (Professor Philip McIlkenny)**
 B (Professor Philip McIlkenny)
 C (Professor Devinder Gandhi)
 D (Professor Philip McIlkenny)

Instructions:

1. Answer all questions in this booklet. The booklet is **not** to be removed from the examination room. **Use the scantron sheet only to record your answers.** No marks will be awarded for answers in this booklet.
2. The use of standard abbreviations (for example, A/R for Accounts Receivable and COGS for Cost of Goods Sold) is quite acceptable.
3. Budget about 1.5 minutes per mark. **Please do not ask the invigilators questions.**
4. Language dictionaries are allowed.
5. The use of electronic communication devices such as cell phones is strictly prohibited during the exam. Sharing of calculators is also strictly prohibited. Use of a programmable calculator is not allowed.
6. **You must sign page 2 of this exam.**

Multiple Choice (Part 1) 22 questions worth 1 mark each.	22 Marks
Multiple Choice (Part 2) 22 questions worth 2 marks each.	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 an exam grade of zero.

PART 1 Multiple Choice (22 marks)

1. A business organized as a separate legal entity is a
 - (a) **corporation.**
 - (b) proprietorship.
 - (c) government unit.
 - (d) partnership.

2. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is called a(n)
 - (a) **account payable.**
 - (b) account receivable.
 - (c) revenue.
 - (d) expense.

3. The right to receive money in the future is called a(n)
 - (a) account payable.
 - (b) **account receivable.**
 - (c) liability.
 - (d) revenue.

4. Buying assets needed to operate a business is an example of a(n)
 - (a) purchasing activity.
 - (b) financing activity.
 - (c) **investing activity.**
 - (d) operating activity.

5. Cost of goods sold is a(n)
 - (a) liability.
 - (b) financing activity.
 - (c) asset.
 - (d) **expense.**

6. Allocating the cost of using long-term assets over their useful lives is called
 - (a) allocation expense.
 - (b) **depreciation expense.**
 - (c) a general expense.
 - (d) asset use expense.

7. Dividends are reported on
 - (a) the income statement.
 - (b) **the statement of changes in equity.**
 - (c) the statement of financial position.
 - (d) both the income statement and statement of financial position.

8. 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.

9. Which of the following is *not* a principal type of business activity?

- (a) operating
- (b) investing
- (c) financing
- (d) **marketing**

10. An intangible asset

- (a) **derives its value from the rights and privileges it provides the company.**
- (b) is worthless because it has no physical substance.
- (c) is converted into a tangible asset during the year.
- (d) cannot be classified on the statement of financial position because it lacks physical substance.

11. The difference between cost and accumulated depreciation is referred to as

- (a) net depreciation.
- (b) **carrying amount.**
- (c) fair value.
- (d) cost value.

12. 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.

Use the following information to answer questions 13–18.

MARCOTTE MASONARY LTD.
Statement of Financial Position
December 31, 2015

Cash	\$ 50,000	Accounts payable	\$ 40,000
Prepaid insurance	5,000	Salaries payable	5,000
Accounts receivable	75,000	Bonds payable	<u>190,000</u>
Inventory	110,000	Total liabilities	<u>235,000</u>
Land	90,000		
Building	\$220,000	Common shares	200,000
Less: Accumulated depreciation	<u>60,000</u>	Retained earnings	<u>105,000</u>
	160,000	Total shareholders' equity	<u>305,000</u>
Trademark	\$ 75,000		
Less: Accum. amort.	<u>25,000</u>	Total liabilities and shareholders' equity	<u>\$540,000</u>
Total assets	<u>\$540,000</u>		

13. The total dollar amount of assets to be classified as current assets is

- (a) **\$240,000.**
- (b) \$220,000.
- (c) \$170,000.
- (d) \$130,000.

14. The total dollar amount of assets to be classified as net property, plant, and equipment is

- (a) \$300,000.
- (b) **\$250,000.**
- (c) \$240,000.
- (d) \$160,000.

15. The total dollar amount of assets to be classified as investments is

- (a) **\$ 0.**
- (b) \$ 50,000.
- (c) \$ 90,000.
- (d) \$190,000.

16. The total amount in the contra asset accounts is

- (a) \$ 60,000.
- (b) **\$ 85,000.**
- (c) \$210,000.
- (d) \$235,000.

17. Non-current liabilities total

- (a) \$540,000.
- (b) \$235,000.
- (c) **\$190,000.**
- (d) \$ 45,000.

18. Profit retained for use in the business is

- (a) \$540,000.
- (b) \$305,000.
- (c) \$200,000.
- (d) **\$105,000.**

19. The relationship between current assets and current liabilities is important in evaluating a company's

- (a) profitability.
- (b) **liquidity.**
- (c) fair value.
- (d) solvency

20. 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.**

21. An investment by the shareholders in a company increases

(a) **assets and shareholders' equity.**

(b) assets and liabilities.

(c) liabilities and shareholders' equity.

(d) assets only.

22. 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.

PART 2 Multiple Choice (44 marks)

23. Chan Inc. purchased office supplies costing \$3,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed \$1,750 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be

- (a) debit Office Supplies Expense, \$1,750; credit Office Supplies, \$1,750.
- (b) debit Office Supplies, \$3,000; credit Office Supplies Expense, \$3,000.
- (c) **debit Office Supplies Expense, \$1,250; credit Office Supplies, \$1,250.**
- (d) debit Office Supplies, \$1,750; credit Office Supplies Expense, \$1,750.

24. On July 1, Alaska Store paid \$12,000 to Snow Realty for six months rent, starting July 1. Prepaid Rent was debited for the full amount. If financial statements are prepared on July 31, the adjusting entry to be made by Alaska Store is

- (a) debit Rent Expense, \$12,000; credit Prepaid Rent, \$12,000.
- (b) debit Prepaid Rent, \$2,000; credit Rent Expense, \$2,000.
- (c) debit Prepaid Rent, \$6,000; credit Rent Expense, \$6,000.
- (d) **debit Rent Expense, \$2,000; credit Prepaid Rent, \$2,000.**

25. If a business has received cash in advance of services being performed and credits a liability account, the adjusting entry needed after the services are performed will be

- (a) debit Unearned Revenue and credit Cash.
- (b) **debit Unearned Revenue and credit Revenue.**
- (c) credit Unearned Revenue and debit Revenue.
- (d) debit Unearned Revenue and credit Accounts Receivable.

26. Accumulated Depreciation is a(n)

- (a) expense account.
- (b) shareholders' equity account.
- (c) liability account.
- (d) **contra asset account.**

27. 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.

28. Best Value Trucks Inc. began the year with \$1,200 of supplies on hand. During the year the company purchased \$4,000 worth of supplies, debited to the Supplies account. At the end of the year, there was \$1,000 worth of supplies left on hand. The adjusting entry for Supplies at the end of the year would be:

- | | | |
|-----------------------------------|--------------|--------------|
| (a) Supplies Expense | 4,200 | |
| Supplies | | 4,200 |
| (b) Supplies Expense | 4,000 | |
| Supplies | | 4,000 |

(c) Supplies	4,200	
Supplies Expense.....		4,200
(d) Supplies Expense	4,200	
Cash.....		4,200

29. 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**

30. 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.

31. A company using a perpetual inventory system that returns goods purchased on credit would

- (a) **debit Accounts Payable and credit Merchandise Inventory.**
- (b) debit Sales and credit Accounts Payable.
- (c) debit Cash and credit Accounts Payable.
- (d) debit Accounts Payable and credit Purchases.

32. Cashmere Corporation purchased merchandise inventory with an invoice price of \$16,000 and credit terms of 2/10, n/30. How much cash will Cashmere pay if they pay within the discount period?

- (a) \$16,000
- (b) **\$15,680**
- (c) \$14,720
- (d) \$14,400

33. 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 34–37.

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

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

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

35. Gross profit would be

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

36. The gross profit margin would be

- (a) **56.7%**.
- (b) 34.3%.
- (c) 43.3%.
- (d) 39.5%.

37. The profit margin would be

- (a) 18.5%.
- (b) **15.6%**.
- (c) 60.6%.
- (d) 34.3%.

38. Average Corp. purchased inventory as follows:

- March 3 300 units at \$9
- March 4 200 units at \$10
- March 7 100 units at \$11

On March 5, Average sold 400 units for \$17 each. The average unit cost to be used for the cost of goods sold on March 5, in a perpetual inventory system, is

- (a) \$9.40.
- (b) \$9.50.
- (c) **\$9.67**.
- (d) \$17.00.

Use the following information for the month of July for questions 39–40.

ABC Inc. uses the FIFO cost method in a **perpetual** inventory system.

Jul 1	Beginning inventory	20 units @ \$19 per unit
Jul 7	Purchases	70 units @ \$20 per unit
Jul 8	Sales	50 units
Jul 9	Sales	25 units
Jul 10	Purchases	50 units @ \$22 per unit
Jul 22	Sales	40 units

39. The cost of goods sold for the July 8 sale was

- (a) \$950.
- (b) **\$980**.
- (c) \$989.
- (d) \$1,000.

40. Ending inventory at July 31 is

- (a) \$2,330.
- (b) \$720.
- (c) \$680.
- (d) **\$550**.

Exam continues on Page 9

Use the following information for the month of July for questions 41–42.

ABC Inc. uses the Average Cost method in a **periodic** inventory system.

Jul 1	Beginning inventory	20 units @ \$19 per unit
Jul 7	Purchases	70 units @ \$20 per unit
Jul 8	Sales	50 units
Jul 9	Sales	25 units
Jul 10	Purchases	50 units @ \$22 per unit
Jul 22	Sales	40 units

41. The cost of goods sold for July's sales was

- (a) \$2165.71
- (b) \$2265.71
- (c) **\$2365.71**
- (d) \$2465.71

42. Ending inventory at July 31 is

- (a) **\$514.29**
- (b) \$524.19
- (c) \$534.29
- (d) \$544.29

Use the following information for questions 43–44.

The following information was available for Riley Limited at December 31, 2015:

Beginning inventory	\$ 120,000
Ending inventory	150,000
Cost of goods sold	810,000
Net sales.....	1,400,000

43. Riley's inventory turnover was

- (a) 5.0 times.
- (b) **6.0 times.**
- (c) 7.5 times.
- (d) 9.0 times.

44. Riley's days in inventory was

- (a) 40.6 days.
- (b) 48.7 days.
- (c) **60.8 days.**
- (d) 73.0 days.