

Last Name: _____

First Name: _____

STUDENT ID #: _____

Section #: _____

Commerce 1AA3

Duration of Examination: 2 hours

Dr. Emad Mohammad and Prof. Aadil Merali

McMaster University Midterm Examination

INSTRUCTIONS:

This examination paper comprises **16** pages (including cover page), **20** true/false questions, **1.0** point each, and **40** multiple-choice questions, **2** points each. You are responsible for ensuring that your copy of the question paper is complete. Bring any discrepancy to the attention of the invigilator.

The *true/false* and *multiple-choice* questions are to be answered on the computer answer sheet provided.

Each question has only **one** correct answer. No correction factor will be applied to incorrect answers.

On the question paper remember to fill in your name, student number and section number.

Only the McMaster Standard Calculator (Casio FX 991) may be used.

The special scanner, which scans the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with an HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be thorough or the scanner may still sense a mark. Do **NOT** use correction fluid on sheets. **DO NOT PUT ANY OTHER MARKS OR WRITING ON THE SHEET, INCLUDING THE MARGINS.**

Print your name, student number, course name, section number, and the date in the space provided at the top of side 1 of the form. Then the sheet must be signed in the space marked SIGNATURE.

Mark your student number in the space provided on sheet Side 1 and fill in the corresponding bubbles underneath.

Mark only **ONE** choice from the alternatives (A, B, C, and D) provided for each question. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.

Pay particular attention to the Marking Directions on the form.

Begin answering questions using the first set of bubbles, marked "1".

For each of the following questions, choose the best answer then darken the identifying letter to the corresponding number in the answer sheet.

True/False (20 questions x 1 point each = 20 points)

1. The following are the three conditions to recognize an item as an asset: 1) it has future benefits; 2) the company owns the rights to these benefits; and 3) it is quantifiable (measurable).
 - a. True
 - b. False

2. To recognize an obligation as a liability, the promise to pay must be explicit.
 - a. True
 - b. False

3. Statement of Cash Flows is not prepared on the accrual basis under IFRS.
 - a. True
 - b. False

4. If the bookkeeper mistakenly records a deposit of \$530 as \$350, the error would be shown on the bank reconciliation as a \$180 deduction to the book balance.
 - a. True
 - b. False

5. In a bank reconciliation, adjustments to the book balance always require preparation of journal entries.
 - a. True
 - b. False

6. The repayment of loans to creditors would be reported on a statement of cash flows under financing activities.
 - a. True
 - b. False

7. Activities that increase or decrease long-term assets of a corporation are referred to as investing activities.
 - a. True
 - b. False

8. Claims held by the shareholders (owners) of a corporation are referred to as share capital minus retained earnings.
 - a. True
 - b. False

9. The collection of cash from a customer on account would have no effect on net income or shareholders' equity.
 - a. True
 - b. False

10. A balance sheet is a required financial statement that reports the financial position of the company for a period of time.
 - a. True
 - b. False

11. The account called Accrued Liabilities is an expense account and not a liability account.
 - a. True
 - b. False

12. A transaction is first recorded in the journal.
 - a. True
 - b. False

13. If accounts payable increase by \$10,000 and total purchases during the period were \$20,000 then payments to suppliers for the period totalled \$10,000.
 - a. True
 - b. False

14. The purchase of office equipment on account would increase an asset and decrease a liability account.
 - a. True
 - b. False

15. The effect on the financial statements of recording depreciation on equipment is that net income, assets, and shareholders' equity are all decreased.
 - a. True
 - b. False

16. Under the Allowance method of accounting for bad debts, the eventual write-off of uncollectible accounts will reduce total assets.
 - a. True
 - b. False

17. Adjusting entries always involve revenues or expenses on one side and assets or liabilities on the other side.
 - a. True
 - b. False

18. Under Indirect Method, Depreciation expense represents a "flow" of cash during the current period.
 - a. True
 - b. False
19. Receivables are monetary claims against others.
 - a. True
 - b. False
20. Two major types of receivables include: accounts receivables and notes payable.
 - a. True
 - b. False

Multiple-Choice (40 Questions x 2 each = 80 points)

21. The recording of the cost of a stapler as a supplies expense instead of an asset is an application of:
 - a. Matching principle
 - b. Historical cost principle
 - c. Materiality
 - d. Full disclosure
22. An investor wishes to assess a company's liquidity at the end of the period would examine:
 - a. Current assets and current liabilities from the balance sheet
 - b. Cash flows from operating activities from the statement of cash flows
 - c. Operating income from the income statement
 - d. Long term assets and long term liabilities from the balance sheet
23. Mika Corporation purchased a truck for \$50,000 cash. Which of the following statements regarding this purchase is incorrect?
 - a. Shareholders' equity on Mika's balance sheet will not change
 - b. Net income for Mika will be reduced by the \$50,000 expense of the truck
 - c. Total assets on Mika's balance sheet will not change
 - d. Total liabilities will not change
24. Kisumu Inc. completed its first year of operations in 2016. The company declared dividends of \$25,000. If the ending balance of Retained Earnings is \$35,000 and the company had revenues of \$200,000 from 2016 sales, the company's 2016 expenses totalled:
 - a. \$165,000
 - b. \$210,000
 - c. \$140,000
 - d. \$175,000

Use the following information to answer the next 4 questions

Shown below is an adjusted trial balance for Habari Inc. at the end of its accounting period for its first year of operations: December 31, 2016. All amounts are in Canadian Dollars.

Habari Inc.,
Adjusted Trial Balance
December 31, 2016

	Dr.	Cr.
Cash	240,000	
Accounts receivable	200,000	
Inventory	200,000	
Prepaid rent	50,000	
Prepaid insurance	15,000	
Equipment	250,000	
Accumulated depreciation – Equip		50,000
Accounts Payable		280,000
Advertising payable		50,000
Income tax payable		10,000
Dividends payable		10,000
Unearned revenues		80,000
Notes Payable (due June 2018)		150,000
Common Shares		200,000
Dividends declared	15,000	
Sales revenues		500,000
Dividend revenue		50,000
Cost of goods sold	200,000	
Supplies expense	10,000	
Wages expense	15,000	
Interest expense	25,000	
Depreciation expense	50,000	
Insurance expense	10,000	
Advertising expense	80,000	
Income tax expense	20,000	
	1,380,000	1,380,000

25. Net income is:
- a. \$140,000
 - b. \$90,000
 - c. \$60,000
 - d. \$10,000

26. Ending retained earnings is
- \$45,000
 - \$125,000
 - \$75,000
 - (\$5,000)
27. Total current assets is
- \$640,000
 - \$705,000
 - \$785,000
 - \$690,000
28. Total current liabilities is
- \$350,000
 - \$430,000
 - \$420,000
 - \$580,000
29. On January 1, 2016, total assets for Sungura Inc. were \$125,000; on December 31, 2016, total assets were \$145,000. On January 1, 2016, total liabilities were \$110,000; on December 31, 2016, total liabilities were \$115,000. What are the amount of the change and the direction of the change in Sungura's shareholders' equity for 2016?
- decrease of \$15,000
 - increase of \$15,000
 - increase of \$30,000
 - decrease of \$30,000
30. A company using the cash basis of accounting pays for one year of rent in advance. The entry to record this transaction will involve a debit to:
- Deferred Rent Revenue
 - Prepaid Rent
 - Rent Expense
 - Rent Revenue
31. On December 1, 2016 Sokoni Company paid its rent of \$24,000 covering a two-year period beginning on December 1, 2016. Which of the following statements is correct?
- Prepaid rent should be credited by \$1,000 on December 31, 2016
 - Rent expense should be credited by \$23,000 on December 31, 2016
 - Prepaid rent should be credited by \$23,000 on December 31, 2016
 - Rent expense should be credited by \$1,000 on December 31, 2016

32. If a company received \$20,000 as a payment on accounts receivable and used the money to pay \$20,000 on accounts payable, then:
- both assets and shareholders' equity would decrease by \$20,000
 - both assets and liabilities would decrease by \$20,000
 - assets would increase by \$20,000 while liabilities would decrease by \$20,000
 - liabilities would decrease by \$20,000 while shareholders' equity would increase by \$20,000
33. Safaricom Inc. had a \$5,000 balance in its Supplies account on January 1, 2016. During 2016, Safaricom purchased \$12,000 of supplies. These purchases were recorded in the Supplies account. If Safaricom used \$8,000 of supplies during 2016, the year-end adjustment for this account would include:
- A credit to Supplies of \$8,000
 - A debit to Supplies of \$9,000
 - A credit to Supplies of \$9,000
 - A debit to Supplies of \$8,000
34. Mambo Inc. purchased equipment for \$6,000 on July 1, 2016. The useful life of the equipment is 5 years with no salvage value. Mambo Inc. routinely uses the Straight-Line Depreciation method. Which one of the following would be part of the journal entry that is required on December 31, 2017?
- Debit Depreciation Expense – Equipment \$1,200
 - Debit Depreciation Expense – Equipment \$600
 - Credit Accumulated Depreciation – Equipment \$600
 - Debit Accumulated Depreciation – Equipment \$1,200
35. In reconciling the bank balance with the book cash balance, which of the following would NOT cause the bank balance shown on the bank statement to be lower than the unadjusted book balance?
- Cash on hand at the company
 - NSF cheques from a customer, as reported on the bank statement
 - Interest credited (deposited) to the account by the bank
 - Deposits in transit
36. Expenses can be described as:
- increases in assets resulting from operations
 - increases in retained earnings resulting from operations
 - increases in liabilities resulting from purchasing assets
 - decreases in retained earnings resulting from operations

Use the following information to answer the next 2 questions

Tatu Corp. makes all sales on credit. During May 2016, total credit sales were \$2,650,000, collections were \$2,400,000 and accounts written off as uncollectible were \$25,000. The balance in the allowance for bad debt accounts was \$3,000 credit on May 1, 2016.

37. Calculate the balance in the allowance for bad debt on May 31, 2016 assuming Tatu Corp. estimates that 1% of credit sales will be uncollectible:
- a. \$1,500
 - b. \$26,500
 - c. \$4,500
 - d. \$25,000

38. Tatu Corp. has a \$40,000 balance in accounts receivable on May 31, 2016. An analysis of individual accounts and prior loss experience reveals the following data for aging accounts receivable:

	Amount	Percent
Due within 30 days	\$20,000	1%
Past due 30-90 days	\$10,000	10%
Past due more than 90 days	\$10,000	30%

Calculate the Bad Debt Expense for May 2016 assuming Tatu Corp. uses the aging of accounts method.

- a. \$4,200
 - b. \$26,200
 - c. \$23,800
 - d. \$25,000
39. Timothy Company's 2016 income statement reported total revenues, \$800,000 and total expenses (including \$45,000 depreciation) of \$750,000. The 2016 balance sheet reported the following: accounts receivable—beginning balance, \$50,000 and ending balance, \$40,000; accounts payable—beginning balance, \$32,000 and ending balance, \$27,000. Therefore, based only on this information, the 2016 net cash inflow from operating activities was:
- a. \$90,000
 - b. \$50,000
 - c. \$100,000
 - d. \$95,000
40. When equipment is sold for cash, the amount received is reflected as:
- a. Inflow in the operating activities section
 - b. Inflow in the financing activities section
 - c. Inflow in the operating activities section if the sale results in a loss
 - d. Inflow in the investing activities section

Use the following information to answer the next question

Asante Inc.'s comparative balance sheets and income statement follow:

Balance sheet, December 31	2015	2016
<u>Assets:</u>		
Cash	\$150,000	\$120,000
Accounts receivable	30,000	48,000
Inventory	20,000	36,000
Equipment	600,000	700,000
Accumulated depreciation	<u>(300,000)</u>	<u>(320,000)</u>
Total assets	\$ 500,000	\$ 584,000
	=====	=====
<u>Liabilities and shareholders' equity</u>		
Bonds payable	\$ 98,000	\$ 92,000
Dividends payable	16,000	10,000
Common shares	178,000	300,000
Retained earnings	<u>208,000</u>	<u>182,000</u>
Total liabilities and stockholders' equity	\$ 500,000	\$ 584,000
	=====	=====

Income statement for year ended December 31, 2016

Sales revenue	\$ 310,000
Cost of goods sold	<u>(214,000)</u>
Gross margin	96,000
Depreciation expense	(26,000)
Loss on sale of equipment	<u>(26,000)</u>
Net income	\$ 44,000
	=====

Additional information:

During 2016, \$80,000 of bonds payable and \$80,000 cash was issued in exchange for new equipment.

41. If cash **inflow** from operating activities is \$62,000, and cash **outflow** from investing activities is \$52,000, then net cash from financing activities should be:
- a. \$30,000 inflow
 - b. \$30,000 outflow
 - c. \$40,000 outflow
 - d. \$40,000 inflow

42. Where in the cash flow statement would the purchase of new equipment be recorded?
- Operating Activities section
 - Investing Activities section, if the purchase was for cash
 - Non-cash Activity schedule, if the purchase was financed with either loans or issuance of equity.
 - Both b. and c. above are correct
43. Income taxes owed to the federal government would be classified as a:
- current asset on the balance sheet
 - current liability on the balance sheet
 - non-current asset on the balance sheet
 - financing activity on the cash flow statement
44. Which of the following transactions will increase an asset and increase a liability?
- issuing shares
 - making a payment on account
 - purchasing office equipment for cash
 - buying equipment on account
45. The journal entry to record the purchase of supplies on account:
- debits Supplies Expense, and credits Supplies
 - credits Supplies, and debits Accounts Payable
 - credits Supplies, and debits Cash
 - debits Supplies, and credits Accounts Payable
46. Accruing revenues will:
- increase total assets
 - increase total shareholders' equity
 - have no effect on liabilities
 - All of the above
47. The following information is provided for Sawa Inc.:

Account	Balance February 28	Balance March 31	Additional Information
Cash	\$9,000	\$4,000	Cash receipts \$81,000
Interest Receivable	\$5,000	\$2,100	Interest Revenue \$7,800
Notes Payable	\$14,000	\$22,000	New borrowing \$25,500

- Collections for interest totalled:
- \$10,700
 - \$91,700
 - \$ 4,900
 - \$ 7,800

48. A business owner owns a building, valued at \$100,000 with an \$80,000 outstanding mortgage. If the owner transfers the building and the mortgage into her business, the result of this transfer is an:
- increase in assets by \$20,000
 - increase in assets by \$80,000
 - increase in shareholders' equity by \$20,000
 - increase in shareholders' equity by \$100,000
49. Which of the following business events may not be recorded in a company's general ledger?
- The company paid each of its employees a Christmas bonus
 - The company issued 100 shares of common stock
 - The company purchased two acres of land for future plant expansion
 - A contract has just been signed to provide services at \$5,000 per month from next month. The payment will be received after the service is provided
50. An incomplete A/R T-account for the month of July is as follows:

Accounts		
Dr.	Receivable	Cr.
Balance	25,000	
7-July	100,000	
Balance	40,000	

Assuming that all debits to A/R represent sales on account, how much was collected from customer during the month of July?

- \$85,000
- \$165,000
- \$35,000
- \$115,000

Use the following information to answer the next 2 questions

Baridi Inc. had the following transactions during August:

Aug 1	Purchased insurance for September through December	\$2,000
Aug 4	Purchased software for cash	\$500
Aug 5	Performed services and received cash	\$800
Aug 8	Paid advertising expense	\$500
Aug 11	Performed services on account	\$2,900
Aug 19	Purchased computer on account	\$2,200

51. What is the cash basis income for August?

- a. \$3,200
- b. (\$4,400)
- c. \$700
- d. (\$2,200)

52. What is the accrual basis income for August?

- a. (\$2,200)
- b. \$3,700
- c. \$2,400
- d. \$3,200

53. Details of Unearned Revenue for the month of May are shown in the account

Dr.	Unearned Revenue	Cr.
	Balance	5,000
	7-May	10,000

The company adjusts the accounts at the end of each month. As of May 31, the company has \$2,000 of services to be performed to clients who have paid in advance. Based on these facts, the adjusting entry at the end of May should include:

- a. a debit to Unearned Revenue for \$13,000
- b. a credit to Revenue for \$2,000
- c. a debit to Revenue for \$13,000
- d. a credit to Unearned Revenue for \$2,000

Use the following information to answer the next 2 questions

The following information is available for three companies in the same industry:

	Eastern	Western	Southern
Current Assets	\$ 80,000	\$ 60,000	\$200,000
Total Assets	\$250,000	\$250,000	\$250,000
Current Liabilities	\$ 40,000	\$ 40,000	\$140,000
Total Liabilities	\$200,000	\$200,000	\$300,000
Revenues	\$800,000	\$800,000	\$800,000
Net Income	\$200,000	\$200,000	\$200,000

54. Which one has the best ability to meet its short-term obligations?
- Eastern
 - Western
 - Southern
 - Cannot be determined from the information given
55. Which one is most likely to file for bankruptcy?
- Eastern
 - Western
 - Southern
 - Cannot be determined from the information given
56. On April 1, 2016, Residential Insurance Company sold a one-year insurance policy covering the year ended March 31, 2017. Residential collected the full \$1,500 on April 1, 2016 and debited Cash and credited Unearned Revenue on April 1, 2016 for the amount of \$1,500. Residential did not make any adjusting entries for 9 months. Based on these facts, what would be the adjusting entry needed by Residential at December 31, 2016:
- Debit Unearned Revenue and Credit Insurance Revenue for \$1,125
 - Debit Unearned Revenue and Credit Insurance Revenue for \$375
 - Debit Insurance Revenue and Credit Unearned Revenue for \$375
 - Debit Insurance Revenue and Credit Unearned Revenue for \$1,125

Use the following information to answer the next 2 questions

The accounting records of Magendo Inc. include the following unadjusted balances at January 31: Accounts Receivable, \$1,400; Supplies, \$700; Salary Payable, \$0; Unearned Service Revenue, \$850; Service Revenue, \$14,000; Salary Expense, \$4,400; Supplies Expense, \$0. As Magendo's accountant, you have developed the following data for the January 31 adjusting entries:

- i. Supplies on hand, \$250
- ii. Salary owed to employees, \$1,700
- iii. Service revenue accrued, \$900
- iv. Unearned service revenue that has been earned \$750

57. Calculate the salaries expense for January:

- a. \$4,400
- b. \$1,700
- c. \$6,100
- d. \$2,700

58. Calculate the service revenue for January:

- a. \$14,900
- b. \$14,000
- c. \$14,750
- d. \$15,650

59. Records Management Corp. estimates that \$8,000 of its accounts receivable will be uncollectible. Prior to adjustment, the Allowance for Uncollectible Accounts has a debit balance of \$2,000. If Records Management uses the Aging Method, bad debt expense to be reported on the income statement is:

- a. \$ 6,000
- b. \$10,000
- c. \$ 8,000
- d. \$ 2,000

60. Mimi Inc. borrowed \$100,000 on October 1, 2016 by signing a one-year note payable to Merchant Bank. The loan agreement requires Mimi to pay interest on the maturity date (September 30, 2017). The annual interest rate is 12%.

The adjusting entry for Mimi Inc. on December 31, 2016 will include:

- a. a credit to cash for \$3,000
- b. a debit to interest expense for \$3,000
- c. a debit to note payable for \$3,000
- d. both a. and b. above are correct

Question	Answers
1	A
2	B
3	A
4	B
5	A
6	A
7	A
8	B
9	A
10	B
11	B
12	A
13	A
14	B
15	A
16	B
17	A
18	B
19	A
20	B
21	C
22	A
23	B
24	C
25	A
26	B
27	B
28	B
29	B
30	C
31	A
32	B
33	A
34	A
35	C
36	D
37	C
38	B
39	C
40	D

41	C
42	D
43	B
44	D
45	D
46	D
47	A
48	C
49	D
50	A
51	D
52	D
53	A
54	A
55	C
56	A
57	C
58	D
59	B
60	B