CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

MIDTERM EXAMINATION (REGULAR)
Winter 2017

Duration: 3 hours

Name: ____________________________ ID: _______________ Section: _______

Instructions (very important):

1. This examination paper consists of **8 pages including this page**. Please make sure your copy has all pages before commencing to write.
2. Write your FULL name (last name & first), Student ID and Section Letter on all three examination documents: computer input sheet, answer booklet and examination paper.
3. Multiple choice questions must be answered in the **computer input sheet**; darken the letter you choose **in pencil** on the computer input sheet. All other questions must be answered in the **examination answer booklet**. You may answer the questions in any order you prefer. **Only the answers on the computer input sheet and in the examination booklet will be graded.**
4. Read the questions carefully and budget your time wisely.
5. **Show all calculations** on the examination booklet, and omit narratives for journal entries. Using abbreviated account names, headings, subheadings, totals and subtotals is not recommended, and it may be subject to mark deduction.
6. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language (not electronic) dictionary are permitted.
7. **Professors and invigilators will not answer questions unless if you think there is an error in the exam.**
8. Return the exam along with the computer input sheet and answer booklet(s) when you have finished.

GOOD LUCK!!!

Question	Topic	Marks
1	Multiple Choice Questions	15
2 (a)	Journal Entries and Adjusting Entries	18
2 (b & c)	Financial Statement Preparation	29
2 (d & e)	Ratio Analyses	5.5
3	Bank Reconciliation	11
4	Receivables and Bad Debts	11.5
5	Accounting for Inventories and Cost of Sales	10
Total		**100**

<u>Question 1 Multiple Choice Questions (15 marks – 1.5 marks each question) 15 minutes:</u>

1) The Total Asset Turnover measures which of the following?
    a. the profit generated by efficient management of assets
    b. how quickly we liquidate our inventory
    c. the sales revenue generated by efficient management of assets
    d. the ability to earn profit for the shareholders

2) Parker Bank is deciding whether to make a loan to Davis Company. Why would the bank be interested in the amount of liabilities that Davis has on its statement of financial position?
    a. Liabilities represent resources that could be used to repay the loan.
    b. If Davis already has many other obligations, it might not be able to repay the loan.
    c. Existing liabilities give an indication of how profitable Davis has been in the past.
    d. Parker would be interested in the amount of Davis's assets but not the amount of liabilities.

3) The conceptual framework of accounting helps to ensure that
    a. users with no accounting or business knowledge will understand financial statements.
    b. a rule will be in place for every possible situation.
    c. there are consistent standards prescribing the nature, functions and limits of financial statements.
    d. all countries have their own unique accounting standards.

4) What is the primary purpose of hiring a public accounting firm to examine the financial statements of the company?
    a. To assure no fraud has been committed by the company's management.
    b. To provide credibility that the financial information conforms with international financial reporting standards in all material respects.
    c. To detect all accounting errors made by the accounting system and employees.
    d. To detect fraud committed by employees.

5) An understatement of the beginning inventory results in
    a. no effect on the period's earnings.
    b. an overstatement of earnings.
    c. an understatement of earnings.
    d. a need to adjust purchases.

6) The two qualitative characteristics that are defined in terms of what influences or makes a difference to a decision maker are
   a. faithful representation and materiality.
   b. comparability and verifiability.
   c. relevance and completeness.
   d. materiality and relevance.

7) On the statement of cash flows, how would a company report the purchase of machinery?
   a. As cash used in operating activities.
   b. As cash used in financing activities.
   c. As cash used in investing activities.
   d. It doesn't matter how it is reported as long as it is shown as an outflow of cash.

8) Tabor Company had trade receivables of $450,000 and an allowance for doubtful accounts of $15,500 just prior to writing off as worthless a trade receivable from Fox Company of $5,000. What was the net realizable value of trade receivables as shown by the accounting record before and after the write-off?

	Before	**After**
a.	$450,000	$450,000
b.	$15,000	$439,500
c.	$434,500	$429,500
d.	$434,500	$434,500

9) An aging of a company's trade receivables indicates that $6,500 is estimated to be uncollectible. If Allowance for Doubtful Accounts has a $1,200 debit balance, the adjustment to record bad debts for the period will require a debit to
   a) Bad Debts Expense for $6,500.
   b) Bad Debts Expense for $5,300.
   c) Allowance for Doubtful Accounts for $6,500.
   d) Bad Debts Expense for $7,700.

10) Accounting information should be neutral to enhance:
   a) Faithful representation.
   b) Relevance.
   c) Comparability.
   d) Understandability.

Question 2: Journal Entries and Financial Statements: (52.5 marks) 75 minutes:

MGC Inc. is a company that was created in 2001. It specializes in the manufacturing and sales of clothing merchandise and has been steadily growing since 2001. The unadjusted trial balance for MGC Inc. on December 1, 2016 is presented below along with the account balances at January 1, 2016. MGC's fiscal year end is at December 31, 2016. MGC's accountant attempted to adjust some accounts throughout the year.

MGC INC.				
Account Name	**Unadjusted Trial Balance December 1, 2016**		**Balance as at January 1, 2016**	
	Debit	Credit	Debit	Credit
Cash	$115,000		$74,000	
Trade Receivables	56,000		50,000	
Allowance for doubtful accounts	2,000			$4,000
Prepaid Insurance	12,000		12,000	
Inventory	120,000		100,000	
Land	750,000		150,000	
Buildings	700,000		330,000	
Accumulated depreciation – Buildings		$186,000		176,000
Equipment	300,000		300,000	
Accumulated Depreciation – Equipment		129,000		120,000
Note Payable (due in 5 years, 7.2% interest)		500,000		0
Common shares – issued and outstanding		730,000		564,000
Retained earnings		152,000		152,000
Rent revenue		44,000		0
Sales revenue		683,000		0
Cost of Sales	168,000		0	
Interest expense	36,000		0	
Utilities expense	56,000		0	
Salaries expense	90,000		0	
Depreciation expense - equipment	9,000		0	
Depreciation expense - buildings	10,000		0	
	$2,424,000	$2,424,000	$1,016,000	$1,016,000

Transactions that occurred during December 2016 and additional information necessary for preparation of MGC Inc.'s financial statements at year end:

1) On December 4, 2016 MGC purchased on account, $25,000 worth of inventory from supplier Delphi Inc. The conditions of the purchase were 2/10 n/30, FOB shipping point. Delivery occurred on the same day by the company WeDeliver Inc. and amounted to $500 which was paid in cash.
2) On December 8, MGC sold clothing to retailer Paquin Corp. for $135,000 on account with conditions 2/5 n/30. The sale conditions are FOB destination with delivery by WeDeliver Inc. amounting to $1,500, paid in cash. The gross profit percentage for MGC on this sale transaction was 75%.
3) On December 12, 2016 MGC received a full payment from Paquin Corp. for the sale transaction on December 8, 2016 (from (2) above).
4) On December 13, 2016 MGC paid Delphi Inc. the amount due for the purchase on December 4, 2016 (from (1) above).
5) The 2016 annual depreciation expense for MGC's buildings amounts to $20,000.
6) The equipment has an annual depreciation expense of $18,000.
7) Insurance expired during the year was $5,300.
8) The rental revenue is the amount received for 11 months for dining facilities. The rent for December has not yet been received.
9) It is estimated that 8% of the trade receivables will be uncollectible.
10) Salaries earned but not paid by December 31 amounted to $9,600.
11) MGC's accountant included in the sales revenue account $9,900 that were paid in advance by customers for products that will be delivered in 2017.
12) MGC Inc. has a 25% income tax rate.
13) MGC declared $100,000 in dividends on December 31, 2016, payable on January 15, 2017.
14) MGC had 14,000 common shares issued and outstanding as at January 1, 2016. MGC Inc. issued 6,000 additional common shares in October 2016 in exchange for cash.
15) The accountant for MGC incorrectly recorded the 2016 annual interest expense on November 30, 2016.

<u>Required:</u> show all your calculations and

a) Prepare the journal entries to record the transactions that occurred in December 2016 and prepare the adjusting entries at December 31, 2016 (18 marks).
b) Prepare a multiple step statement of earnings for MGC's year ended December 31, 2016 (11.5 marks).
c) Prepare a classified statement of financial position for MGC as at December 31, 2016 (17.5 marks).

d) Calculate and interpret the following ratios for MGC: Return on Assets, Return on Equity, Total Asset Turnover. Limit your interpretation to one statement per ratio. (5 marks)
e) If the Total Asset Turnover was 0.68 on December 31, 2015, what could have caused the change between the result you arrived at in (e) above and that of 2015? Limit your answer to one statement. (0.5 marks)

<u>Question 3: Bank Reconciliation: (11 Marks) 30 minutes:</u>

The cash account of ABC Corp. shows a ledger balance of $3,999.85 on February 28, 2017. The bank statement as at that date indicates a balance of $4,150. When the statement was compared with the cash records, the following facts were determined:

- There were bank service charges for February of $25.
- A bank memo stated that a note receivable from RedMNM for $900 and interest of $36 had been collected on February 27, and the bank had made a charge of $5.50 on the collection.
- Cheques outstanding on February 28 totalled $2,136.05.
- On February 27, the bank charged ABC's account for a customer's uncollectible cheque amounting to $453.20.
- Cheque no. 742 in the amount of $491 had been entered in the company's books as $419, and cheque no. 747 in the amount of $58.20 had been entered in the company's books as $582. Both cheques were issued by ABC to pay for purchases of equipment.
- Cash collected from customers for February 28 of $2,890 was deposited in the bank by ABC's cashier. The bank processed the deposit on March 1, 2017.
- In January 2017, the bank incorrectly charged a $27.50 Wal Corp. cheque against ABC Corp.'s account. The February bank statement indicates that the bank reversed this charge and corrected its error.

<u>Required:</u> show all your calculations and

a) Prepare a bank reconciliation dated February 28, 2017, proceeding to a correct cash balance. (6.5 marks)
b) Prepare any journal entries that are needed to adjust the ABC's accounts at February 28, 2017. (4.5 marks)

Continued ➡

Question 4: Receivables and Bad Debts (11.5 marks) 30 minutes:

RMV Corp is in the process of preparing its year-end financial statements. RMV's fiscal year ends on December 31 and it uses the allowance method to estimate bad debts. RMV has a collection policy where trade receivables should be collected in 45 days. Based on prior years, RMV usually books 12.5% of its trade receivables as estimated bad debts. The statement of financial position of RMV Corp. at December 31, 2015, includes a trade receivables balance of $208,100 and an allowance for doubtful accounts credit balance of 17,300.

Transactions in 2016 include the following:

i. Trade receivables of $138,000 were collected. This amount includes gross sales of $40,000 on which 2% sales discounts were allowed and the customer took advantage of the discount.

ii. An additional $6,700 was received in payment of an account that was written off in 2013.

iii. Customer accounts of $19,500 were written off during the year.

Required: show all your calculations and

a) Prepare all necessary journal entries to reflect the information above.

b) Record the journal entry for bad debt expense for the year ended December 31, 2016.

c) The year ended December 31, 2016 had recorded gross sales of $1,080,000, cost of sales of 432,000, net credit sales in the amount of $750,000 and a cost of sales on those credit sales in the amount of $300,000. Net earnings were $248,000 and RMV has a tax rate of 18%. Calculate and interpret RMV's receivables turnover ratio and the average days to collect. Based on your calculation and interpretation give two suggestions to RMV.

Continued ➡

<u>Question 5: Accounting for Inventories and Cost of Sales (10 marks) 30 minutes:</u>

AQD Corporation is a multi-product firm. The following information concerns one of its products:

Date	**Transaction**	**Quantity**
January 1	Beginning Inventory at $12 per unit	1,000
February 4	Purchase inventory at $18 per unit	2,000
February 20	Sold products at $30 per unit	2,500
April 2	Purchase inventory at $23 per unit	3,000
November 4	Sold products at $33 per unit	2,000

<u>Required:</u> show all your calculations and

a) Calculate the cost of sales, ending inventory, inventory turnover ratio and average days to sell for AQD if:

   i) AQD uses a periodic inventory system and the FIFO cost flow method.

   ii) AQD uses a periodic inventory system and the weighted average cost flow method.

   iii) AQD uses a perpetual inventory system and the weighted average cost flow method.

b) As the Chief Executive Officer (CEO) of AQD, which method would you choose if you wanted to show the highest possible Earnings Per Share (EPS) ratio? Explain why.

End of Exam.