

Final Exam Review 2 – Take-Home Questions

The following questions are adapted from Financial Accounting: Tools for Business Decision-Making, by Kimmel, Weygandt, Kieso, Trenholm, & Irvine, 5th Canadian Edition.

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Disclaimer:

These questions are for review purposes only. These questions do not, in any way, indicate the type, content, or style of questions that will be on the final exam. This package is for additional practice so students can determine what they know...and what they do not know.

NOTE that these questions do not include concepts prior to Chapter 6. The final exam WILL be cumulative (include all chapters from 1 to 10). For a review of the first 5 chapters see the Midterm Review Package and the end of chapter Practice Questions that were posted before the midterm.

NOTE: The charts usually have more rows than you will need. Account names HAVE NOT been provided because they WILL NOT be provided on the final exam.

For a more effective review, we suggest that you print the charts out and fill them in by hand, instead of on the computer. You will not be using a computer on the final exam!

Solutions to these questions are available in a separate document. Try the questions first – don't peek!

FER2-5

An important part of accounts receivable is to recognize that businesses owe many customers. Those customer's invoices can then be aged. The aging categorizes all invoices by how long they are outstanding.

The following question will help you to recognize and create an accounts receivable sub-ledger while, at the same time, testing your understanding Chapter 4, merchandising businesses.

NOTE: no information is available regarding the cost of the inventory sold. This question focuses on Accounts Receivable only, which is why inventory is ignored for purposes of this question.

The transactions that follow were for Discovery Sports Ltd. with its customers during the company's first month of business:

- Feb. 2 Sold \$1,140 of merchandise to Andrew Noren on account, terms n/30.
- 4 Andrew Noren returned \$140 of the merchandise purchased on February 2.
- 5 Sold \$750 of merchandise to Dong Corporation on account, terms 2/10, n/30.
- 8 Sold \$842 of merchandise to Michael Collins for cash.
- 10 Sold \$920 of merchandise to Rafik Kurji, who paid cash.
- 14 Dong Corporation paid.
- 17 Andrew Noren purchased an additional \$696 of merchandise on account, terms n/30.
- 22 Sold \$1,738 of merchandise to Batstone Corporation, terms 2/10, n/30.
- 28 Andrew Noren paid \$1,000 towards his outstanding accounts receivable.

Instructions

Record the business activities into the accounting equation using account names. Round your answers to the nearest dollar.

SEE THE CHART ON THE NEXT PAGE.

FER2-7

Romez Limited borrowed \$60,000 from the bank on July 1 for three months; 5% interest is payable the first of each month, starting August 1. Romez's year end is August 31. Prepare entries to record (a) the receipt of the bank loan on July 1; (b) (1) the accrual of interest on July 31, (2) the payment of interest on August 1, (3) the accrual of interest on August 31, (4) the payment of interest on September 1.

Date	Assets	Liabilities			Equity			
					Owner's capital	Retained earnings		
						Profit		
						Revenue		
Cash								

FER2-8

Spector Limited purchased a truck on January 1, 2010, for 62,000. The truck had a residual value of \$6,000, and an estimated 4 year useful life. On January 1, 2012, Spector sold the delivery truck for \$10,000. Spector uses straight-line depreciation and had a December 31 yearend.

Create a chart which shows the depreciation expense, accumulated depreciation, and book value (also called carrying value) for 2010, 2011, and 2012. Record the depreciation expense for December 31, 2010, December 31, 2011, and all the necessary entries for 2012, including the sale of the truck, in the chart on the next page.

Year	Depr. Expense	Accumulated Depr.	Book value

Calculations of the gain or loss on sale:

FER2-9

Chinook Limited's general ledger reports a balance in Accounts Receivable of \$360,000 at the end of December.

Instructions

- (a) Assuming that the Allowance for Doubtful Accounts has a balance of \$-4,400 and that uncollectable accounts are estimated to be \$36,000 by aging the accounts, record the entry at December 31.
- (b) Assuming the same information as in (a) except that uncollectable accounts are expected to be 9% of the accounts receivable, record the entry at December 31.
- (c) Assuming the same information as in (a) except that the Allowance for Doubtful Accounts has a balance of \$+2,400, record the entry at December 31.

Part (a):

	Assets			Liabilities	Equity			
					Owners' Capital	Retained Earnings		
						Profit		
						Revenue	Expenses	
Cash								

Charts for Part (b) and (c) are on the next page.

Part (b):

	Assets			Liabilities	Equity			
					Owners' Capital	Retained Earnings		
	Profit							
	Revenue	Expenses						
Cash								

Part (c):

	Assets			Liabilities	Equity			
					Owners' Capital	Retained Earnings		
	Profit							
	Revenue	Expenses						
Cash								

FER2-10

Eyre Inc. borrows a 10-year, 7%, \$300,000 mortgage on November 1, 2015, to buy a new building. The mortgage interest is paid on the first day of every month, starting December 1, 2015. Prepare the entry at November 1, when Eyre took out the loan. Record the following interest entries: November 30 when the company accrues interest, December 1 when it pays the interest, and December 31, when it accrues interest at the end of the year.

Date	Assets	Liabilities			Equity			
					Owner's capital	Retained earnings		
						Profit		
						Revenue	Expense	
Cash								

FER2-12

Spector Limited purchased a computer on January 1, 2010, for \$10,980. The computer had no residual value and a useful life of three (3) years. On September 1, 2012, Spector sold the computer for \$1,500 cash. Spector uses straight-line depreciation and had a December 31 yearend.

Create a chart which shows the depreciation expense, accumulated depreciation, and book value (also called carrying value) for 2010, 2011, and 2012. Record the depreciation expense for December 31, 2010, December 31, 2011, and all the necessary entries for 2012, including the sale of the computer, in the chart on the next page.

Year	Depr. Expense	Accumulated Depr.	Book value

Calculation of the gain or loss on sale:

FER2-13

Gemini Ltd. has accounts receivable of \$370,000 at March 31, 2012. An analysis of the accounts shows these amounts:

Month of Sale	2012
March	\$260,000
February	50,400
January	34,000
October-December	25,600
	<u>\$370,000</u>

At March 31, 2012, there is an \$-8,800 balance in the allowance for doubtful accounts. The company estimates its uncollectable accounts as follows:

Number of Days Outstanding	Estimated % & Amount Uncollectable	
0-30	2% x	= \$
31-60	10% x	= \$
61-90	30% x	= \$
Over 90	50% x	= \$

Instructions

- Prepare an aging schedule to determine the total estimated uncollectable accounts receivable at March 31, 2012.
- Record the entry that the business would have to make at March 31, 2012, to record the bad debts expense estimate that you just calculated. Make the entry into the accounting equation on the next page using account names.

	Assets			Liabilities	Owners' Capital	Equity		
						Retained Earnings		
	Profit							
	Revenue	Expenses						
Cash								

FER2-16

Spector Limited purchased equipment on January 1, 2010, for \$150,000. The equipment had no residual value and a useful life of ten (10) years. On December 1, 2013, Spector sold the equipment for \$80,000 cash. Spector uses straight-line depreciation and had a December 31 yearend.

Create a chart which shows the depreciation expense, accumulated depreciation, and book value (also called carrying value) for 2010, 2011, 2012, and 2013. Record the depreciation expense for December 31, 2010, December 31, 2011, December 31, 2012, and all the necessary entries for 2013, including the sale of the equipment, on the chart on the next page.

Year	Depr. Expense	Accumulated Depr.	Book value

Calculation of the gain or loss on sale:

FER2-20

At January 1, 2012, Bordeaux Inc. reported the following information on its statement of financial position:

Accounts receivable	\$480,000
Allowance for doubtful accounts	-35,000

During 2012, the company had the following summary transactions for receivables:

1. Sales on account, \$1,600,000
2. Sales returns and allowances, \$250,000
3. Collections of accounts receivable, \$1,500,000
4. Write-offs of accounts receivable deemed uncollectable, \$45,000
5. Customers who were previously written off sent in cheques for \$10,500

Instructions

- (a) Prepare all the entries required using the accounting equation with account names for the year.
- (b) Prepare the entry to record bad debts expense at December 31, assuming that aging the accounts receivable indicates that the amount for estimated uncollectable accounts is \$55,000.
- (c) The balance sheet at December 31 would show what?
- (d) The income statement at December 31 would show what?

Answers to (c) and (d):

FER2-21

The statement of cash flows for Cutting Edge Grooming Company is provided, below. Analyze the statement and indicate what you think about how the company did for this year. Do you think that the business should have paid dividends to the owner? Why or why not? Be sure to support your answer with information from the cash flow, both when you answer these specific questions but also when you analyze the statement!

CUTTING EDGE GROOMING COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED XX/XX/XX



Cash Flows from Operating Activities

Cash receipts from:

Cash sales	\$ 90,000
Collections on account	30,000
Total cash receipts	<u>120,000</u>

Cash payments for:

Rent	(12,000)
Security deposit	(2,000)
Other operating expenses	(58,000)
Total cash payments	<u>(72,000)</u>

Cash Flows from Investing Activities

Purchase of equipment	<u>(20,000)</u>
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Cash Flows from Financing Activities

Owners cash contribution	50,000
Cash dividends paid	<u>(20,000)</u>

Net cash provided by financing activities 30,000

Net increase in cash 58,000

Cash balance, beginning of year 0

Cash balance, end of year \$ 58,000

Enter each of the transactions into the accounting equation, using account names.

	Assets			Liabilities	Equity			
					Owners' Capital	Retained Earnings		
	Profit							
	Revenue	Expenses						
Cash								

The cost of the inventory is slightly down for every purchase. What could be a possible reason for these slight changes in the cost of inventory at every purchase?

On April 30 the business performs an inventory count and determines that there are only 203 items on the shelf. What may have caused the difference between the inventory records and what is on the shelf?

What should the business do about the fact that there are only 203 items on the shelf? Why do they need to do anything at all? If an entry is required provide the entry and update the inventory control chart and the accounting records. Show your calculations!

On April 30 you review the selling price of the product and discover that, due to a competitor's new and less expensive product, you can now only sell your product for \$30 each. What, if anything, should the business do and why? If an entry is required provide the entry and update the inventory control chart and the accounting records. Show your calculations!
