



VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

REGULAR MIDTERM EXAM **SOLUTION** COURSE TITLE: FINANCIAL ACCOUNTING

Date of the exam: **Sunday, March 3, 2019**

Time: **from 10:00-12:00**

Professors: Chen, Chourou, Musselman, Soliman, Shujun.

INSTRUCTIONS

1. Answer all multiple choice questions in this exam. Put your answer directly on the Scantron Sheet provided. Failure to put your Last Name and Student id on the Scantron sheet may mean you get zero marks. The exam is **not** to be removed from the examination room.
2. This exam is out of 66 marks and is 2 hours long. You should budget approximately 1.8 minutes per mark.
3. Please do **not** ask the invigilator or the professor any questions, as they will not be answered. State reasonable assumptions, if you feel they are necessary. Language dictionaries (non-electronic) are allowed if approved by the professor.
4. The use of electronic communication devices such as cell phones is strictly prohibited during the exam.
5. Calculators **are** permitted.

| | |
|--|-----------------|
| Q1-16 1 mark per question | 16 marks |
| Q17-41 2 marks per question | 50 marks |
| TOTAL | 66 marks |

NAME: _____

STUDENT #: _____

SECTION: _____

Statement of Academic Integrity

The Telfer 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.

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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.

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Select the best answer for each of the following multiple-choice items and enter your answer on the Scantron Sheet provided. Failure to use the Scantron Sheet will result in zero marks. Only one answer will be accepted for each question. There is no penalty for guessing. No account will be taken of any explanations provided.

Questions 1 to 16 are each worth one mark.

1. A corporation has which of the following set of characteristics?
 - a) shareholder control, income tax disadvantages, increased skills and resources
 - b) simple to set up and maintains control with founder
 - c) harder to raise funds and gives shareholders control
 - d) easier to transfer ownership and raise funds, limited liability
 - e) none of the above

2. Which of the following statements regarding external users is true?
 - a) Shareholders and creditors are the only people who need accounting information.
 - b) Canada Revenue Agency is the primary external user of financial information.
 - c) External users of accounting information include the managers who plan, organize, and run a business.
 - d) The information needs and questions of external users vary considerably.
 - e) None of the above

3. Which of the following statements is true?
 - a) Public corporations can choose to use either International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE).
 - b) Private corporations can choose to use International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE).
 - c) Private corporations do not issue shares.
 - d) All private corporations are small.
 - e) None of the above

4. Cost of goods sold is a(n)
 - a) liability.
 - b) financing activity.
 - c) asset.
 - d) expense.
 - e) None of the above.

5. Allocating and recording the cost of using property, plant & equipment over their useful lives is called
 - a) PP&E expense.
 - b) depreciation expense.
 - c) a general expense.
 - d) allocation expense.
 - e) None of the above

6. Dividends declared
 - a) increase assets.
 - b) increase expenses.
 - c) decrease revenues.
 - d) decrease retained earnings.
 - e) None of the above

7. 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.
 - e) None of the above

8. On a classified statement of financial position, current assets are often listed

- a) in alphabetical order.
- b) with the largest dollar amounts first.
- c) in the order in which they are expected to be converted into cash.
- d) in the order of acquisition.
- e) None of the above

9. The procedure of transferring journal entries to the ledger accounts is called

- a) journalizing.
- b) analyzing.
- c) reporting.
- d) posting.
- e) None of the above

10. What is the classification, debit effect, and normal balance for the prepaid insurance account?

| Classification | Debit Effect | Normal balance |
|----------------|--------------|----------------|
| a) Asset | decrease | credit |
| b) Asset | increase | debit |
| c) Expense | decrease | credit |
| d) Liability | increase | debit |

e) None of the above

11. Recording transactions that affect a company's financial statements in the periods in which they occur rather than when cash is received or paid is called

- a) time period accounting.
- b) the cash basis of accounting.
- c) monetary accounting.
- d) the accrual basis of accounting.
- e) None of the above

12. Under the accrual basis of accounting

- a) cash must be received before revenue is recognized.
- b) profit is calculated by matching cash outflows against cash inflows.
- c) events that change a company's financial statements are recognized in the period they occur rather than in the period in which cash is paid or received.
- d) the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.
- e) None of the above

13. Assuming a corporation has positive net income, gross profit:

- a) is always equal to net income before taxes
- b) may be equal to net income after taxes
- c) is Profit before considering cost of goods sold
- d) is Total profit earned by the corporation since the inception of the corporation
- e) None of the above

14. Which of the following statements are true?

- a) Net sales will always be larger than gross sales
- b) Allocating items such as sales returns to expense accounts is an acceptable practice
- c) Net sales are gross sales – sales returns and allowances – sales discounts
- d) All of the above
- e) None of the above

15. Inventory should be:

- a) Presented on the statement of financial position at the lower of cost and net realizable value
- b) Physically counted at least once per year
- c) Tracked by the specific identification cost formula if there are a relatively small number of costly items that are easily distinguishable from one another

- d) All of the above
- e) None of the above

16. At the end of the year, Scramble Inc. has consigned goods on their shelves in the Scramble Inc. retail store. Which of the following is true?

- a) The consigned goods will be included in the inventory of Scramble Inc. because Scramble Inc. has physical possession of the item at the end of the year
- b) The consigned goods will not be included in the inventory of Scramble Inc.
- c) There is not enough information to determine if the consigned goods will be included in the inventory of Scramble Inc.
- d) All of the above
- e) None of the above

Questions 17 to 41 are each worth two marks.

17. The Sun and Snow Shop Ltd. started the year with total assets of \$60,000 and total liabilities of \$40,000. During the year the business recorded \$100,000 in car repair revenues, \$65,000 in expenses, and dividends of \$10,000. The net income reported by The Sun and Snow Shop Ltd. for the year is

- a) \$20,000.
- b) \$100,000.
- c) \$45,000.
- d) \$90,000.
- e) None of the above.

18. Which of the following is true with regards to assets:

- a) Non-current assets are not expected to be converted into cash, sold, or used up by the business within one year of the financial statement date or its operating cycle, whichever is longer.
- b) Property, plant and equipment includes items such as land, buildings, equipment, furniture, computers, vehicles, and office supplies.
- c) Prepaid expense is a type of intangible asset.
- d) All property, plant, and equipment is depreciated, meaning that a portion of the asset's cost is expensed each year.
- e) None of the above.

Please answer Question 19 – Question 21 based on the following information.

These items are taken from the general ledger of Bold Ltd. for the year ended December 31, 2018:

| | |
|---|-----------|
| Cash | \$ 11,170 |
| Buildings | 105,000 |
| Accumulated depreciation—equipment | 19,200 |
| Accounts payable | 9,550 |
| Salaries payable | 6,170 |
| Common shares | 45,000 |
| Accumulated depreciation—buildings | 12,000 |
| Accounts receivable | 7,500 |
| Prepaid expense | 250 |
| Equipment | 32,000 |
| Income tax expense | 5,000 |
| Long-term investments | 20,000 |
| Retained earnings (on January 1, 2018) | 34,000 |
| Dividends declared | 3,500 |
| Service revenue | 193,100 |
| Depreciation expense | 5,400 |
| Insurance expense | 2,400 |
| Salaries expense | 145,600 |
| Utilities expense | 3,700 |
| Interest expense | 8,000 |
| Interest revenue | 500 |
| Land | 145,800 |
| Mortgage payable | 175,800 |

Additional information:

- Bold started the year with \$25,000 of common shares and issued \$20,000 more during the year.
- \$35,100 of the mortgage payable is due to be repaid within the next year.

19. What is the total amount of current assets reported on the statement of financial position of Bold Ltd. as at December 31, 2018?

- a) \$18,920
- b) \$38,920
- c) \$18,670
- d) \$18,000
- e) None of the above

20. What is the total amount of current liabilities reported on the statement of financial position of Bold Ltd. as at December 31, 2018?

- a) \$15,720
- b) \$ 50,000
- c) \$191,520
- d) \$35,100
- e) None of the above

21. What is the amount of retained earnings reported on the statement of financial position of Bold Ltd. as at December 31, 2018?

- a) \$54,000
- b) \$57,500
- c) \$57,750
- d) \$45,000
- e) None of the above

22. Journalize the following business transactions in general journal form:

Received cash from a customer who had previously been billed for services provided, \$2200.
Performed the service that a customer previously paid for, \$1500

| | | | |
|---------|-------------------------|------|------|
| a) Cash | | 2200 | |
| | Service revenues | | 2200 |
| | Cash | 1500 | |
| | Unearned revenues | | 1500 |

| | | | |
|---------|---------------------------|------|------|
| b) Cash | | 2200 | |
| | Accounts receivable | | 2200 |
| | Unearned revenues | 1500 | |
| | Service revenues | | 1500 |

| | | | |
|----------------------------|------------------------|------|------|
| c) Unearned revenues | | 2200 | |
| | Service revenues | | 2200 |

No journal entry required

| | | | |
|--------------|-------------------------|------|------|
| d) Cash..... | | 2200 | |
| | Unearned revenues | | 2200 |
| | Cash | 1500 | |
| | Service revenues | | 1500 |

- e) None of the above

23. A Company has cash balance of \$27,900 in incorrect trial balance available on December 31, 2017. The following errors in the trial balance were made:

1. Recorded \$200 cash revenue received by debiting Accounts Receivable for \$200 and crediting Revenue for \$200.
2. Omitted a journal entry that debits Insurance Expense for \$3,700 and credits Cash for \$3,700.

The cash balance in the correct trial balance at December 31, 2017 should equal:

- a) \$28,100
- b) \$24,200
- c) \$31,600
- d) \$24,400
- e) None of the above

24. A company completed the following transactions during the month of October: Purchased office supplies on account, \$4,000, provided services for cash, \$20,000, provided services on account, \$32,000, collected cash from a customer on account \$27,000, received cash of \$200 from a customer as a deposit for services to be provided in November, and paid the monthly rent of \$3,000.

What was the company's total revenue for the month?

- a) \$20,000
- b) \$32,000
- c) \$52,000
- d) \$79,000
- e) None of the above

25. The accounts of XYZ Company are as follows on May 31, 2018:

| Account | Balance |
|---------------------|----------|
| Accounts Payable | \$23,500 |
| Accounts Receivable | \$15,600 |
| Cash | \$68,000 |
| Common Stock | \$32,000 |
| Dividends | \$3,000 |
| Insurance Expense | \$2,100 |
| Retained Earnings | \$25,800 |
| Salary Expense | \$1,100 |
| Sales Revenue | \$10,000 |
| Supplies | \$1,500 |

What is the total of the debit column in the trial balance at May 31, 2018?

- a) \$84,300
- b) \$88,300
- c) \$91,000
- d) \$182,600
- e) None of the above

26. During its first month of operations, XYZ corporation completed the following transactions:

- ✓ Cash of \$30,000 was invested in the corporation in exchange for 30,000 common stock.
- ✓ Purchased equipment on account for \$60,000.
- ✓ Provided services on account, \$10,000.
- ✓ Paid salaries to employees, \$1,000.
- ✓ Received cash from a customer as payment on account \$6,000.
- ✓ Borrowed \$8,000 from the bank, issuing a note payable.
- ✓ Declared and paid \$2000 of dividends to shareholders.

At the end of the month, Cash and total liabilities respectively would equal:



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- a) \$28,000 and \$8,000.
- b) \$35,000 and \$60,000.
- c) **\$41,000 and \$68,000.**
- d) \$59,000 and \$70,000.
- e) None of the above

Use the following information to answer questions 27-29

Telfer Corporation prepares monthly financial statements. Below are listed some selected accounts and their balances on the September 30 trial balance before any adjustments have been made for the month of September.

Telfer CORPORATION
Trial Balance
September 30, 2018

| | <u>Debit</u> | <u>Credit</u> |
|---|-----------------|-----------------|
| Cash..... | \$12,300 | |
| Office supplies | 2,700 | |
| Prepaid insurance | 5,775 | |
| Office equipment | 16,200 | |
| Accumulated depreciation—office equipment | | \$ 540 |
| Accounts payable | | 1,100 |
| Unearned revenue | | 1,200 |
| Common shares..... | | 10,000 |
| Retained earnings..... | | 18,925 |
| Rent revenue | | 6,360 |
| Salaries expense | 1,150 | |
| Office supplies expense | 0 | |
| Insurance expense | 0 | |
| Depreciation expense | 0 | |
| Total | <u>\$38,125</u> | <u>\$38,125</u> |

An analysis of the account balances provided the following additional information:

- (1). A physical count of office supplies revealed \$1,200 on hand on September 30.
- (2). A two-year insurance policy was purchased on June 1 for \$6,600. This is the only insurance policy for the Corporation that relates to the balance in the prepaid insurance account at September 30, 2018.
- (3). Rent received in advance that remains unearned at September 30 is \$500. Other than this rent received, there is no other unearned revenue for this corporation at September 30, 2018

Adjusting entries are made on a monthly basis.

27. Using additional information (1), the adjusting journal entry should be

- a) Office Supplies Expense 1,200
Office Supplies 1,200
- b) Office Supplies 1,500
Office Supplies Expense 1,500
- c) Office Supplies Expense 1,500
Cash..... 1,500
- d) **Office Supplies Expense 1,500**
Office Supplies 1,500
- e) None of the above



28. Using additional information (2), the adjusting journal entry should be

- a) Insurance Expense 275
Cash 275
- b) Insurance Payable 275
Prepaid Insurance 275
- c) Insurance Expense 1,100
Prepaid Insurance 1,100
- d) Insurance Expense 275
Prepaid Insurance 275**
- e) None of the above

29. Using additional information (3), the adjusting journal entry should be

- a) Accounts Receivable 700
Rent Revenue 700
- b) Accounts Receivable 500
Rent Revenue 500
- c) Cash 700
Rent Revenue 700
- d) Unearned Revenue 700
Rent Revenue 700**
- e) None of the above

30. On September 1, the DMS Corp. borrowed \$150,000 from First Provincial Bank by issuing a 12% note payable due in three months. Both the principal and the interest will be paid in cash in three months. The adjusting entry, if any, required on September 30, the end of the fiscal year, should be

- a) Cash 1,500
Note Payable 1,500
- b) Interest Expense 4,500
Cash 4,500
- c) Interest Payable 1,500
Bank Loans 1,500
- d) Interest Expense 1,500
Interest Payable 1,500**
- e) None of the above

31. Joan’s Skateboard Shop has a weekly payroll of \$9,000 and pays its employees every Friday. None of the staff work on weekends. This year, the last day of the company’s fiscal year-end is a Wednesday. What is the correct adjusting entry to accrue salaries expense?

- a) Salaries Expense 1,800
Cash 1,800
- b) Salaries Expense 5,400
Salaries Payable 5,400**
- c) Salaries Expense 5,400
Cash 5,400
- d) Salaries Expense 9,000
Salaries Payable 9,000
- e) None of the above

Please use the following information for questions 32 – 34:

The following merchandise transactions occurred in December. Both companies use a perpetual inventory system.

| | |
|--------|--|
| Dec 3 | Seller Ltd. sold goods to Buyer Corp. for \$68,000, terms 2/10, n/30, FOB shipping point. The inventory had cost Seller \$36,000. |
| Dec 7 | Shipping costs of \$900 were paid by the appropriate company. |
| Dec 8 | Buyer returned unwanted merchandise to Seller. The returned merchandise has a sales price of \$2,100, and a cost of \$1,150. It was restored to inventory. |
| Dec 11 | Seller received the balance due from Buyer. |

32. The correct entry for Seller Ltd. on December 3 is:

| | | | |
|----|---------------------------|--------|--------|
| a) | Accounts Receivable..... | 67,680 | |
| | Sales | | 67,680 |
| | Cost of Goods Sold | 36,000 | |
| | Inventory | | 36,000 |
| b) | Sales | 68,000 | |
| | Accounts Receivable..... | | 68,000 |
| | Cost of Goods Sold | 36,000 | |
| | Inventory | | 36,000 |
| c) | Accounts Receivable..... | 68,000 | |
| | Sales | | 68,000 |
| | Cost of Goods Sold | 36,000 | |
| | Inventory | | 36,000 |
| d) | Accounts Receivable | 68,000 | |
| | Sales | | 68,000 |

e) None of the above

33. The correct entry for Seller Ltd. on December 11 is:

| | | | |
|----|--------------------------|--------|--------|
| a) | Cash | 68,000 | |
| | Accounts Receivable..... | | 68,000 |
| b) | Cash | 64,582 | |
| | Sales Discounts | 1,318 | |
| | Accounts Receivable..... | | 65,900 |
| c) | Cash | 68,900 | |
| | Accounts Receivable..... | | 68,900 |
| d) | Cash | 65,900 | |
| | Accounts Receivable..... | | 65,900 |

e) None of the above

34. The gross profit earned by Seller Ltd. on the above transactions is:

- a) \$32,000
- b) \$31,100
- c) \$68,000
- d) \$31,050
- e) None of the above

Please use the following information for questions 35 – 36:

Seller Ltd. and Buyer Ltd. incurred the following merchandise transactions in June. Seller Ltd. uses a periodic inventory system.

| | |
|---------|--|
| June 10 | Seller sold \$5,000 of merchandise to Buyer, terms 1/10, n/30, FOB shipping point. The merchandise cost Seller \$3,000 when it was originally purchased. |
| 11 | Freight costs of \$250 were paid by the appropriate company. |
| 12 | Seller received damaged goods returned by Buyer for credit. The goods were originally sold for \$500; the cost of the returned merchandise was \$300. The merchandise was not returned to inventory. |
| 19 | Seller received full payment from Buyer. |

35. The correct entry for Seller Ltd. on June 10 is:

| | | | |
|----|--------------------------|-------|-------|
| a) | Accounts Receivable..... | 5,000 | |
| | Sales | | 5,000 |
| b) | Accounts Receivable..... | 4,950 | |
| | Sales | | 4,950 |
| | Cost of goods sold..... | 3,000 | |
| | Inventory | | 3,000 |
| c) | Accounts Receivable..... | 5,000 | |
| | Sales | | 5,000 |
| | Cost of goods sold..... | 3,000 | |
| | Inventory | | 3,000 |
| d) | Accounts Receivable..... | 4,950 | |
| | Sales | | 4,950 |

e) None of the above

36. The correct entry for Seller Ltd. on June 12 is:

| | | | |
|----|-----------------------------------|-----|-----|
| a) | Sales Returns and Allowances..... | 300 | |
| | Accounts Receivable..... | | 300 |
| b) | No entry required | | |
| c) | Inventory | 500 | |
| | Accounts Receivable..... | | 500 |
| d) | Sales Returns and Allowances..... | 500 | |
| | Accounts Receivable..... | | 500 |

e) None of the above

Please use the following information for questions 37 – 39.

Thompson Inc. uses the FIFO cost formula. You are provided with the following information about Thompson Inc.'s inventory for the month of May:

| Date | Description | Units | Unit Cost |
|-------|---------------------|----------|-----------|
| May 1 | Beginning inventory | 15,000 | \$2.30 |
| 6 | Purchase | 40,000 | 2.35 |
| 11 | Sale | (30,000) | |
| 14 | Purchase | 50,000 | 2.40 |
| 21 | Sale | (65,000) | |
| 27 | Purchase | 40,000 | 2.45 |

37. If Thompson Inc. uses the perpetual inventory system, the correct adjustment to cost of goods sold on May 11 is:

- a) Credit \$69,000
- b) Debit \$69,000
- c) Debit \$69,750**
- d) Credit \$69,750
- e) None of the above

38. If Thompson Inc. uses the perpetual inventory system, the correct adjustment to cost of goods sold on May 21 is:

- a) Credit \$154,750
- b) Debit \$154,750**
- c) Debit \$149,500
- d) Credit \$149,500
- e) None of the above

39. If Thompson Inc. uses the periodic inventory system, the ending inventory on May 31 is:

- a) 50,000 units / \$122,000**
- b) 0 units / \$0
- c) 65,000 units / \$158,600
- d) 155,000 units / \$122,000
- e) None of the above

Please use the following information for questions 40– 41.

Average Co. Ltd. reports the following inventory transactions for its smart phones for the month of April. The company uses a perpetual inventory system, using the average cost formula. Unless otherwise specified, the staff at Average Co. Ltd. have been requested to round calculations and final answers to 2 decimal places (i.e. \$4.368 should be considered \$4.37).

| Date | Explanation | Units | Unit Cost | Total Cost |
|--------|---------------------|-------|-----------|------------|
| Apr. 1 | Beginning inventory | 50 | \$230 | \$11,500 |
| 6 | Purchases | 35 | \$240 | \$ 8,400 |
| 9 | Sales | (55) | | |
| 14 | Purchases | 40 | \$245 | \$ 9,800 |
| 20 | Sales | (50) | | |
| 28 | Purchases | 30 | \$250 | \$ 7,500 |

40. The cost of goods sold recorded on April 9 is:

- a) \$13,200.00
- b) \$12,925.00
- c) \$12,876.60**
- d) \$12,650.00
- e) \$12,486.10

41. The value of the ending inventory, rounded to the nearest whole dollar, after the April 28 transaction is:

- a) \$ 7,500
- b) \$12,000
- c) \$12,307**
- d) \$12,375
- e) \$12,500