



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

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

Date of the exam: **Sunday, Feb 9, 2020**

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

Professors: Chen, Ding, Himick, Walsh.

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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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 publicly traded corporation needs to follow which type of accounting standards?

- a) International financial reporting standards
- b) Accounting standards for private enterprises
- c) Not-for-profit accounting standards
- d) Public company standards

2. All of the following are characteristics of a corporation, *except*

- a) a separate legal entity.
- b) ownership evidenced by shares.
- c) produce far more revenue than sole proprietorships and partnerships in Canada.
- d) shareholders have unlimited liability.

3. The term used to describe the amount that a company earns in exchange for the sale of its products is

- a) cash.
- b) revenue.
- c) inventory.
- d) accounts receivable.

4. On a classified statement of financial position, current assets are 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.

5. Which of the following is **not** considered to be an asset?

- a) equipment
- b) dividends declared
- c) accounts receivable
- d) inventory

6. Shareholders' equity

a) is divided into at least two parts: share capital and retained earnings.

b) consists of two parts: common and preferred shares.

c) reflects two parts: dividends declared and share capital.

d) reflects retained earnings only.

7. Retained earnings at the end of the period is equal to

a) retained earnings at the beginning of the period plus net income minus liabilities.

b) retained earnings at the beginning of the period plus net income minus dividends declared.

c) net income for the period.

d) assets plus liabilities.

8. A credit to an asset account indicates a(n)

a) error.

b) credit was made to a liability account.

c) decrease in the asset.

d) increase in the asset.

9. Closing entries

a) are prepared before the financial statements.

b) reduce the number of permanent accounts.

c) cause the revenue and expense accounts to have zero balances.

d) summarize the activity in every account.

10. The Dividends Declared account

a) appears on the income statement along with the expenses of the business.

b) must show transactions every accounting period.

c) is increased with debits and decreased with credits.

d) is not a proper subdivision of shareholders' equity.

11. Under the accrual basis of accounting

a) cash must be received before revenue is recognized.

b) net income is calculated by matching cash outflows against cash inflows.

c) revenue is recognized when earned, while expenses are recognized when incurred to generate revenue.

d) the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.

12. The general term employed to indicate an expense that has been incurred but not paid or

revenue that has been earned but not received and has not yet been recognized in the accounts is

a(n)

- a) contra asset.
- b) prepayment.
- c) asset.
- d) accrual.

13. Fang's Tune-Up Shop Ltd. uses the accrual basis of accounting. Fang services a car on May 31. The customer picks up the vehicle on June 1 and mails payment to Fang on June 5. Fang receives the cheque in the mail on June 6. When would Fang recognize the revenue as being earned?

- a) June 6
- b) June 5
- c) June 1
- d) May 31

14. Gross profit equals the difference between net sales and

- a) profit.
- b) cost of goods sold.
- c) operating expenses.
- d) cost of goods sold plus operating expenses.

15. Under a perpetual inventory system

- a) there is no need for a year-end physical count.
- b) increases in inventory resulting from purchases are debited to Purchases.
- c) accounting records continuously disclose the amount of inventory.
- d) the account Purchase Returns and Allowances is credited when goods are returned to vendors.

16. In a perpetual inventory system, cost of goods sold is recorded

- a) on a daily basis.
- b) on a monthly basis.
- c) on an annual basis.
- d) each time a sale occurs.

Questions 17 to 41 are each worth two marks.

17. Plumbers-on-the-Go Ltd. started the year with total assets of \$120,000 and total liabilities of \$75,000. During the year, the business recorded \$82,000 in all revenues, \$45,000 in all expenses, and paid dividends of \$2,500. The net income reported for the year was

- a) \$34,500.
- b) \$37,000.**
- c) \$45,000.
- d) \$82,000.

18. If total liabilities increased by \$18,000 and shareholders' equity increased by \$21,000 during a period of time, then total assets must change by what amount and direction (increase or decrease) during that same period?

- a) \$18,000 increase
- b) \$21,000 increase
- c) \$39,000 decrease
- d) \$39,000 increase**

Use the following information to answer questions 19-21.

On May 1, 2019, Auto Repair Ltd. was formed, and it provides auto repair services. Its assets, liabilities, share capital, revenues, expenses, and dividends on the adjusted trial balance as at May 31, 2019 follow:

	Debit	Credit
Cash	\$ 26,900	
Accounts receivable	22,600	
Supplies	15,000	
Equipment	385,000	
Accumulated Depreciation - Equipment		12,500
Accounts payable		6,400
Bank loan payable		241,000
Common shares		180,000
Service revenue		215,300
Depreciation expense	12,500	
Rent expense	12,100	
Repair and maintenance expense	40,900	
Fuel expense	85,400	
Office expense	12,700	
Salaries expense	36,600	
Income tax expense	2,800	
Dividends declared	2,700	
	655,200	655,200

19. The amount of operating income for May 2019 is:

- a) \$15,100
- b) \$12,300
- c) \$56,000
- d) \$27,600

20. The amount of net income for May 2019 is:

- a) \$15,100
- b) \$12,300
- c) \$9,600
- d) \$27,600

21. The amount of retained earnings reported on the statement of financial position as at May 31, 2019 is:

- a) \$0
- b) \$15,100
- c) \$12,300
- d) \$9,600

Use the following information to answer questions 22-23.

The following items are from Carling Limited's December 31, 2019, statement of financial position:

Accounts receivable	\$ 13,345
Accumulated depreciation—buildings	27,595
Accumulated depreciation—equipment	146,550
Buildings	58,275
Cash	100,460
Common shares	250,000
Copyright	39,590
Equipment	287,400
Inventory	105,320
Land	207,290
Long-term loan	100,000
Patent	20,225
Prepaid expenses	13,950
Retained earnings	335,030
Short-term investments	52,520
Short-term loan	39,200

22. The total amount of current assets as at December 31, 2019 is

- a) \$285,595
- b) \$271,645
- c) \$311,450
- d) \$325,185

23. The total amount of noncurrent assets as at December 31, 2019 is

- a) \$612,780
- b) \$438,635
- c) \$378,820
- d) \$538,635

24. The usual sequence of steps in the recording process is to

- a) analyze each transaction, enter the transaction in the journal, and post the information to the ledger accounts.
- b) analyze each transaction, enter the transaction in the ledger, and post the information to the journal.
- c) analyze each transaction, enter the transaction in the book of accounts, and post the information to the journal.
- d) analyze each transaction, enter the transaction in the book of original entry, and post the information to the journal.

25. Desks Inc started the year with total assets of \$120,000 and total liabilities of \$75,000. During the year, the business recorded \$82,000 in service revenues, \$45,000 in expenses, and paid dividends of \$2,500. Shareholders' equity at the end of the year was:

- a) \$79,500.
- b) \$45,000.
- c) \$82,000.
- d) \$77,000.

26. Which of the following errors, each considered individually, would cause the accounting equation and trial balance to be out of balance?

- a) A payment of \$229 to a creditor was posted as a debit to Accounts Payable and a debit of \$229 to Cash.
- b) Cash received from a customer on account was posted as a debit of \$400 to Cash and a credit of \$400 to Accounts Payable.

- c) A payment of \$75 for supplies was posted as a debit of \$57 to Supplies and a credit of \$57 to Cash.
- d) A transaction was not posted.

Use the following information to answer questions 27-28.

On July 1, Kingston Store paid \$15,000 to Location Realty for six months rent, starting July 1. Prepaid Rent was debited for the full amount.

27. If financial statements are prepared on July 31, the adjusting entry to be made by Kingston Store is

- a) debit Rent Expense, \$15,000; credit Prepaid Rent, \$15,000.
- b) debit Prepaid Rent, \$2,500; credit Rent Expense, \$2,500.
- c) debit Prepaid Rent, \$7,500; credit Rent Expense, \$7,500.
- d) debit Rent Expense, \$2,500; credit Prepaid Rent, \$2,500.**

28. If Kingston Store fails to adjust the Prepaid Rent account for rent that has expired, what effect will this have on that month's financial statements?

- a) This will have no effect on the financial statements.
- b) Expenses will be overstated and net income and shareholders' equity will be understated.
- c) Assets will be overstated and net income and shareholders' equity will be understated.
- d) Assets will be overstated and net income and shareholders' equity will be overstated.**

29. If equipment with a 5-year life was purchased on July 1, 2018 for \$60,000, by December 31, 2019 after adjusting,

- 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. Griffin Inc. had no supplies at the beginning of the accounting period. During the period, it purchased supplies costing \$4,250 and debited Supplies for the full amount. At the end of the accounting period, a physical count of supplies revealed \$2,100 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be

- a) debit Supplies Expense, \$2,100; credit Supplies, \$2,100.
- b) debit Supplies Expense, \$2,150; credit Supplies, \$2,150.**
- c) debit Supplies, \$4,250; credit Supplies Expense, \$4,250.
- d) debit Supplies, \$2,100; credit Supplies Expense, \$2,100.

31. On February 1, Chopper Motorcycles Ltd. signed a 5%, twelve-month bank loan payable for \$168,000 to help finance increases in inventory for the spring and summer season. Assuming no entries have been made previously for the interest on this loan, what is the required adjusting entry for the interest accrued to December 31?

a) Interest Expense.....	7,000	
Interest Payable.....		7,000
b) Interest Expense.....	8,400	
Interest Payable.....		8,700
c) Interest Expense.....	700	
Cash		700
d) Interest Expense.....	7,700	
Interest Payable.....		7,700

32. At December 31, 2018, before any year-end adjustments, Design Inc.'s Unearned Revenue account had a balance of \$2,000. It was determined that \$800 of the design services had been performed before the year-end. The *adjusted balance* for *Unearned Revenue* at year end would be

- a) \$ 800.
- b) \$1,200.**
- c) \$2,000.
- d) \$2,800.

Use the following information to answer questions 33-34.

Operating expenses	\$ 45,000
Sales returns and allowances	25,000
Sales discounts	16,000
Sales	210,000
Cost of goods sold	79,000
Income tax expense	11,000

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

- a) \$169,000.**
- b) \$185,000.
- c) \$194,000.
- d) \$210,000.

34. Gross profit would be

- a) \$ 45,000.
- b) \$ 90,000.**

- c) \$131,000.
d) \$169,000.

Use the following information to answer questions 35-37.

On September 1, 2019, Telfer Inc had an inventory of 18 backpacks at a cost of \$30 each. The company uses a perpetual inventory system. During September, the following transactions occurred.

- Sept. 4 Purchased 35 backpacks at \$30 each from Back Packs Unlimited, terms 3/10, n/30.
6 Received credit of \$150 for the return of 5 backpacks purchased on Sept. 4 that were defective.
9 Sold 20 backpacks for \$50 each to University Supply, terms 2/10, n/30.
14 Paid Back Packs Unlimited in full.
18 Received payment from University Supply.

35. The journal entry to record the transaction on September 6 will be

- a) Accounts Payable 150
Merchandise Inventory 150
- b) Cash 150
Merchandise Inventory 150
- c) Accounts Payable 150
Cost of Goods Sold 150
- d) Accounts Receivable 150
Merchandise Inventory 150

36. To record the transaction on September 9, the correct journal entry (entries) will be

- a) Accounts Receivable 1,000
Sales 1,000
- Cost of Goods Sold 600
Merchandise Inventory 600
- b) Cash 1,000
Sales 1,000
- Cost of Goods Sold 600
Merchandise Inventory 600
- c) Accounts Receivable 985
Sales 985
- d) Cost of Goods Sold 560
Merchandise Inventory 560

37. The journal entry to record the transaction on September 18 will be

a)	Cash	980	
	Sales Discounts	20	
	Accounts Receivable		1,000
b)	Sales Revenue	980	
	Sales Discounts	20	
	Accounts Receivable		1,000
c)	Cash	980	
	Inventory	20	
	Accounts Receivable		1,000
d)	Cash	980	
	Sales Discounts	20	
	Cost of Goods Sold		1,000

38. Presented below are selected transactions for ADM1340 Corporation during July, 2019. A periodic inventory system is used.

- July 1 Sold merchandise to Brunswick Inc. for \$800, terms 3/10, n/30. The merchandise sold cost \$400.
- 2 Purchased merchandise from Scotia Corporation for \$4,500, terms 4/10, n/30.
- 3 Paid freight charges of \$100 on items purchased on July 2.
- 4 Purchased merchandise from Edward Company Ltd. for \$5,000, n/30.
- 10 Received payment from Brunswick Inc. for purchase of July 1.
- 11 Paid Scotia Corporation for July 2 purchase.

The journal entry to record the transaction on July 2 will be

a)	Purchases	4,500	
	Accounts Payable		4,500
b)	Inventory	4,500	
	Accounts Payable		4,500
c)	Cost of Goods Sold	4,500	
	Accounts Payable		4,500
d)	Goods Available for Sale	4,500	
	Accounts Payable		4,500

39. Which of the following correctly identifies the normal balances of accounts?

- a) Assets Debit
 Liabilities Credit
 Common Shares Credit
 Revenues Debit
 Expenses Credit
- b) Assets Debit
 Liabilities Credit
 Common Shares Credit
 Revenues Credit
 Expenses Credit



c) Assets	Credit
Liabilities	Debit
Common Shares	Debit
Revenues	Credit
Expenses	Debit

d) Assets	Debit
Liabilities	Credit
Common Shares	Credit
Revenues	Credit
Expenses	Debit

40. When recording the cash sales for the day, an accountant debited sales and credited cash. The entry is

- a) correct.
- b) an error.**
- c) an irregularity.
- d) not necessary.

[Note: C was also considered a correct answer when the midterm was scanned]

41. If total liabilities increased by \$22,500, then

- a) assets must have increased by \$22,500.
- b) only shareholders' equity must have increased by \$22,500.
- c) assets must have increased by \$22,500, or shareholders' equity must have decreased by \$22,500.**
- d) assets and shareholders' equity must have both decreased by \$22,500.