

CONCORDIA UNIVERSITY
John Molson School of Business
Department of Accountancy

It is important to read this page before beginning

Course name: Introduction to Financial Accounting

Number: ACCO 230.1

Section: AA

Examination: Midterm (3 hours)

Date: May 23, 2013

Total pages: Ten (10), including this page. Ensure your copy is complete.

Special materials allowed: Non-programmable / non-graphical calculators, and one dictionary, i.e., not electronic, without any notes.

INSTRUCTIONS

- Show all answers, including multiple-choice, in the exam copybook (booklet) only. You may answer the Questions in any order you choose. Use either a pencil or pen (your choice). If you use a pencil, make sure the lead is dark. Write neatly and clearly so that your answers can be understood.
- NO ACCOUNT WILL BE TAKEN OF ANSWERS YOU WRITE ON THE EXAM QUESTIONNAIRE DOCUMENT -- NO EXCEPTIONS.
- Assume in ALL cases that the companies use the accrual basis of accounting, unless otherwise stated.
- Show details of calculations for all Questions, except multiple-choice.
- Submit the copybook(s) / booklet(s) at the end of the exam. Keep the exam questionnaire.
- The professor will not answer questions, unless you think there is an error in the exam. The professor will not interpret the questions for you -- that would not be fair to other students.

QUESTION 1 -- Multiple choice -- (35 marks; 63 minutes)

Select the best answer in each case. Show your answer in the copybook only, not on this document. The first ten multiple-choice questions are worth 1.5 marks each; the others are worth two marks each.

1. Which of the following transactions will cause an increase on both sides (left and right) of the basic accounting equation?
 - a. Collection of cash from a customer who purchased merchandise on account.
 - b. Payment to a supplier for inventory purchased on account.
 - c. Borrowing of money from the bank.
 - d. Purchase of equipment for cash.
 - e. More than one of the above is correct.
2. Which of the following options accurately identifies the effects a cash sale of an iPhone by Apple Inc.?
 - a. Accounts receivable increases, sales revenue increases, cost of sales increases, and inventory decreases.
 - b. Cash increases, sales revenue increases, cost of sales decreases, and inventory decreases.
 - c. Accounts receivable increases, sales revenue increases, cost of sales decreases, and inventory decreases.
 - d. Cash increases, sales revenue increases, cost of sales increases, and inventory decreases.
 - e. None of the above.
3. When a customer places an order, Tasty Cakes requires a deposit equal to the full purchase price. However, Tasty Cakes does not recognize revenue until the completed cake is delivered. During the month of September 2012, Tasty Cakes received \$24,000 in customer deposits. The balance in its Deferred Revenue account was \$4,000 at September 1, 2012 and \$6,000 at September 30, 2012. How much revenue did Tasty Cakes recognize during the month of September 2012?
 - a. a. \$26,000 b. \$24,000 c. \$22,000 d. \$4,000 e. \$2,000
4. Assume that ADX, Inc. pays its employees \$3,500 for a 5-day work week, Monday through Friday. The end of the year, December 31, fell on Tuesday, but the company does not pay employees until Friday, the usual payday for the week. What journal entry should ADX record on Friday, January 3, the next payday, assuming that both January 1 and January 2 are paid holidays? (Hint: the employees are paid on Jan. 3 for the days Dec. 30, Dec. 31, Jan. 1, Jan. 2 and Jan. 3.)
 - a.

Salary expense	3,500
Cash	3,500
 - b.

Salary expense	2,100
Salary payable	1,400
Cash	3,500
 - c.

Salary payable	3,500
Cash	3,500
 - d.

Salary payable	2,100
Salary expense	1,400
Cash	3,500
 - e.

Cash	3,500
Salary payable	3,500

5. The bookkeeper of Produits Terrifico recorded a cash collection on account from a customer by debiting Cash and crediting Accounts Payable. As a result of this error,
- a. Total liabilities will be overstated.
 - b. Total assets will be overstated.
 - c. The balance sheet will not balance.
 - d. Both statements in (a) and (b) are correct.
 - e. None of the above statements is correct.
- 6 Accounting information is considered to be relevant when
- a. it represents the economic conditions and events that it is intended to represent.
 - b. it is capable of making a difference in a decision.
 - c. it is understandable by reasonably informed users.
 - d. it is verifiable and neutral.
 - e. it can be used by at least two users.
7. Failure to adjust the unearned revenue account for the portion of revenue actually earned results in
- a. Understatement of equity and overstatement of liabilities.
 - b. Understatement of equity and overstatement of assets.
 - c. Understatement of liabilities and overstatement of assets.
 - d. Understatement of liabilities and understatement of assets.
 - e. None of the above.
8. Which of the following statements is true if depreciation expense is overstated?
- a. Book value of the related asset is understated and accumulated depreciation is overstated.
 - b. Total assets are understated and accumulated depreciation is understated.
 - c. Current assets are understated and accumulated depreciation is overstated.
 - d. Book value of the related asset is overstated and retained earnings is overstated.
 - e. None of the above statements is true.
9. On July 1, 2012, Kwon Company signed a two-year \$8,000 note payable with interest rate of 9% per annum. The principal and interest will be paid in full on July 1, 2013. What would be the interest expense that should be reported on the income statement for the year ended December 31, 2012?
- a. \$360 b. \$420 c. \$720 d. \$1,440 e. \$1,800

10. The procedure of transferring journal entry information to the ledger accounts is called
- (a) journalizing.
 - (b) transference.
 - (c) reporting.
 - (d) balancing.
 - (e) posting.
11. It was discovered that the bookkeeper for G Ltd. had recorded a \$250 deposit from a customer for service work to be performed in the future as follows: Dr. Service revenue \$250; Cr. Cash \$250. As a result of this entry
- a. Cash is understated by \$500 and Unearned revenue is understated by \$250.
 - b. Cash is understated by \$500 and Unearned revenue is overstated by \$500.
 - c. Cash is understated by \$250 and Unearned revenue is understated by \$250
 - d. Cash is understated by \$250 and Unearned revenue is understated by \$500
 - e. The bookkeeper was actually correct.

Use the following information for X Ltd to answer the next two multiple-choice questions.

Accounts receivable, Dec. 31, 2011.....	\$30,000
Accounts receivable, Dec. 31, 2010.....	\$37,000

Credit customers always pay within 30 days. The gross profit percentage is 60%; Cost of Goods Sold was \$1,040,000 in 2011. All purchases and sales are made on credit. *Hint: using T-accounts might help you.*

12. Sales revenue in 2011 was
- (a) \$2,600,000
 - (b) \$2,630,000
 - (c) \$2,340,000
 - (d) \$2,667,000
 - (e) None of these.
13. Cash collected in 2011 from all customers was
- (a) \$2,377,000
 - (b) \$2,597,000
 - (c) \$2,630,000
 - (d) \$2,593,000
 - (e) None of these.

Use the following information to answer the next four multiple-choice questions. J Ltd. is a fitness club located in Fredericton, New Brunswick. It began operations, January 1, 2010. Its fiscal yearend coincides with the calendar year. The following information is provided:

- (i) Collected \$250,000 cash in 2010 from clients for memberships. 90% of these memberships were used in 2010; the remainder were used in 2011.
- (ii) Collected \$900,000 cash in 2011 from clients for memberships. 80% of these memberships were used in 2011; the remainder will be used in 2012.

Hint: using T-accounts might help you.

14. Unearned revenue at the end of 2011 was

- (a) \$205,000
- (b) \$180,000
- (c) \$225,000
- (d) \$250,000
- (e) \$155,000

15. Unearned revenue at the end of 2010 was

- (a) \$25,000
- (b) \$0
- (c) \$225,000
- (d) \$250,000
- (e) \$180,000

16. Revenue recognized in 2010 was

- (a) \$720,000
- (b) \$745,000
- (c) \$225,000
- (d) \$250,000
- (e) \$900,000

17. Revenue recognized in 2011 was

- (a) \$720,000
- (b) \$745,000
- (c) \$925,000
- (d) \$875,000
- (e) \$900,000

18. If a company marks up its inventory cost by 60% when it is sold, the gross profit percentage is
- (a) 66.7%
 - (b) 40.0%
 - (c) 60.0%
 - (d) 37.5%
 - (e) 33.3%

Use the following information for the next two (2) multiple-choice questions. Brinkswell had at the end of 2010 retained earnings of \$2,500,000 and assets of \$3,000,000. During 2011 it reported net income of \$500,000 and declared a dividend of \$150,000. At the end of both 2010 and 2011 there were 5,000 common shares in circulation (outstanding) with a recorded value of \$150,000 on the books.

19. Shareholders' equity at the end of 2011 was

- (a) \$2,650,000
- (b) \$2,800,000
- (c) \$2,850,000
- (d) \$2,350,000
- (e) None of the above.

20. Shareholders' equity at the end of 2010 was

- (a) \$2,850,000
- (b) \$2,800,000
- (c) \$2,650,000
- (d) \$2,350,000
- (e) None of the above.

QUESTION 2 -- Preparation of financial statements, etc. -- (23 marks; 41 minutes)

Below are the accounts in the **adjusted trial balance** dated **31 December 2012** for *NM Ltd.*, a merchandising firm. Each account has a "normal" debit or credit balance, as the term is typically defined. All amounts are expressed in Canadian dollars.

Trade payables	8,000
Trade receivables.....	11,000
Income taxes payable	7,000
Accumulated depreciation	35,000
Depreciation expense	14,000
Cash	10,000
Loan payable, due Dec. 30, 2013	64,000
Cost of goods sold	77,000
Sales returns and allowances.....	6,000
Equipment, at cost	103,000
Interest expense.....	3,000
Merchandise inventory	45,000
Prepaid rent	24,000
Rent expense.....	34,000
Retained earnings.....	37,000
Salaries expense.....	38,000
Promotional and advertising expenses.....	20,000
Sales	210,000
Share capital (5,000 common shares).....	25,000
Income tax expense	7,000
Unearned (deferred) revenue	4,000
Interest income	2,000

Required

1. Prepare in proper form and style the following financial statements for NM Ltd.:
 - (a) A multiple-step income statement for the year ended 31 December 2012. (7 marks)
(Hint: there is a profit, not a loss.)
 - (b) The **Assets section only** of the classified statement of financial position (balance sheet) as at December 31, 2012. (5 marks)
2. Prepare in good form the closing journal entries, without narratives. (3 marks)
3. How much is the gross profit percentage for 2012? What does it mean? How much is the current ratio for 2012? What does it mean? (5 marks)
4. If the equipment is being depreciated on a straight-line basis (no salvage value), in which year was it acquired and placed into service? Explain. (2 marks)
5. How much is total shareholders' equity at the end of 2012? A financial statement is not required. (1 mark)

QUESTION 3 -- Preparation of routine journal entries -- (9 marks; 16 minutes)

Below are selected transactions for Y Consulting Ltd. for April 2013, its first month of business.

Apr. 1 Sold 100,000 shares to various investors for \$10,000,000 cash in total.

Apr. 2 Purchased office supplies from X Ltd. for \$1,500 on account.

Apr. 3 Purchased office furniture for \$20,000 and equipment for \$30,000 in exchange for \$50,000 cash.

Apr. 4 Borrowed \$200,000 from The Huge Bank and signed a two-year note (ignore interest).

Apr. 6 Provided services to various customers for \$35,000 on account.

Apr. 7 Paid \$300 cash to X Ltd. as partial payment for the supplies purchased on April 2.

Apr. 15 Received \$9,000 cash from various customers for the work done on April 6.

Apr. 20 Paid a cash dividend of \$100,000, in total, to shareholders.

Apr. 30 Paid \$17,000 cash to employees for salaries earned in April.

Required

Prepare in good form a journal entry for each of the above transactions. Narratives are not required. *Please skip a line between entries.*

QUESTION 4 -- Accounting for merchandising transactions -- (18 marks; 33 minutes)

Monsieur Bicycle Inc. (MBI) uses a periodic inventory system. During May, the following selected transactions occurred:

- May 4 Purchased 25 bicycles on account at a cost of \$130 each from the Ontario Bicycle Corporation, terms 2/10, n/30, FOB destination.
- 5 The appropriate party paid freight charges of \$400 cash related to the May 4 transaction.
- 6 Sold 22 bicycles on account to Team Quebec for \$260 each, terms 2/10, n/30, FOB destination.
- 7 Received a credit from Ontario Bicycle upon MBI's return of three defective bicycles.
- 8 Sold four bicycles on account to Team PEI for \$260 each, terms 2/10, n/30, FOB shipping point.
- 9 The appropriate party paid freight charges of \$350 cash related to the May 6 transaction.
- 10 The appropriate party paid freight charges of \$70 cash related to the May 8 transaction.
- 11 Issued a credit to Team Quebec upon their return of two bicycles (wrong colour). The bicycles were in excellent condition and were immediately returned to inventory.
- 12 Paid Ontario Bicycle Corporation the amount owing.
- 14 Received the amount owing from Team Quebec.
- 24 Received the amount owing from Team PEI.

Required (Round to nearest dollar)

(a) Prepare in good form the journal entries for MBI to record the above transactions. If there is no entry on MBI's books, write "no entry". Narratives are not required. *Please skip a line between each journal entry.* (14 marks)

(b) Assume for this part only that MBI uses a perpetual inventory system, and that all bicycles in stock show a cost of \$130 each. Prepare in good form the journal entries for MBI to record the transactions of May 4, May 6, May 7, and May 11 (for those four dates only). Narratives are not required. *Please skip a line between each journal entry.*

(4 marks)

QUESTION 5 -- Preparation of adjusting journal entries -- (15 marks; 27 minutes)

Selected accounts from the partial **unadjusted** trial balance of Jan Repair Shop Ltd. appear below. The firm only adjusts its accounts annually, and the adjustments have always been correct.

Jan Repair Shop Ltd.
Partial **Unadjusted** Trial Balance
December 31, 2012

	<u>Debit</u>	<u>Credit</u>
Accumulated depreciation —equipment		17,500
Note payable, 6% annual interest rate, due February 28, 2013		72,000
Prepaid insurance	24,000	
Unearned revenue.....		9,000
Prepaid rent	12,000	
Equipment, at cost	175,000	

Information for the **eight (8)** adjusting entries that must be made:

- a) The Prepaid rent balance comprises \$4,000 of rent paid for each of the months November 2012, December 2012, and January 2013.
- b) No depreciation has yet been recorded in 2012. Equipment is being depreciated on a straight-line basis over twenty years, no salvage value.
- c) The board of directors declared a dividend of one dollar per share on December 31, 2012. The dividend will be paid January 16, 2013. Ten thousand common shares are in circulation (outstanding).
- d) The balance in the Prepaid insurance account represents the cost of premiums for a comprehensive policy covering the period January 1, 2012 to June 30, 2013.
- e) The note payable was issued by the bank on March 1, 2010 (not a "typo"). Principal and all interest will only be paid at maturity.
- f) Sixty-percent (60%) of the service work related to the unearned revenue was completed in 2012.
- g) Included with the December bank statement received from the bank is a customer's cheque for \$700 marked "NSF". (Ignore bank fees.)
- h) Income tax expense for 2012 is calculated to be \$25,000 and will be paid March 15, 2013.

Required

1. Prepare in good form the adjusting journal entries for items (a) to (h). Use other accounts, as needed. Narratives are not required. *Please skip a line between each entry.* (10 marks)
2. Show in good form the journal entry made in January 2013 when the dividend was paid. (1 mark)
3. Show in good form the journal entry (entries) made on February 28, 2013 when the loan matured. (2.5 marks)
4. How much is the estimated remaining life (in years) of the equipment as at December 31, 2012? (1.5 marks)

END OF MIDTERM EXAMINATION