



CONCORDIA UNIVERSITY

Course: Introduction to Financial Accounting

No.: ACCO 230.4 All Sections

Examination: MIDTERM (3 hours)

Date: February 15, 2009

No. of Pages: Nine (9), including this cover page. Ensure your copy is complete.

Material Allowed: Non-programmable / non-graphical calculators, and one ordinary dictionary, i.e., not electronic.

Special Instructions: Answer Problem 1 (multiple choice and “fill in the blanks”) on the exam questionnaire itself. Answer Problems 2, 3, 4 and 5 in the copybook (booklet), and in any order you desire. Show **ALL CALCULATIONS** for Problems 2, 3, 4 and 5.

Return the exam questionnaire and your copybook at the end of the exam.

Invigilators will not answer any questions, unless you think there is actually an error in the exam.

Student Name: _____

Student ID: _____

Section: _____

Professor's name: _____

PROBLEM 1**(38 marks; 58 minutes)****PART A** (29 marks)**Multiple-choice**

Clearly circle (no “overlap”) the best answer for each of the following multiple-choice questions. (Multiple-choice questions 1 to 14 are each worth 1.5 marks; multiple-choice questions 15 to 18 are each worth 2 marks.)

Use the following information for multiple-choice questions 1 to 3.

GG Ltd. uses a periodic inventory approach and has the following balances in selected accounts at December 31, 2008 (each account has a “normal balance”, as defined in the textbook):

Purchases	\$315,000
Sales	490,000
Purchase discounts	6,800
Merchandise inventory, Jan. 1, 2008	36,000
Freight-in	12,200
Purchase returns and allowances	10,400
Sales discounts	12,000

A physical inventory at December 31, 2008 showed that inventory costing \$30,000 was still actually in stock.

1. Cost of goods purchased for 2008 amounted to
 - (a) \$297,800
 - (b) \$310,000
 - (c) \$327,200
 - (d) \$315,000

2. Cost of goods sold for 2008 amounted to
 - (a) \$368,000
 - (b) \$418,000
 - (c) \$376,000
 - (d) \$316,000

3. Net purchases for 2008 amounted to
 - (a) \$325,200
 - (b) \$351,000
 - (c) \$346,000
 - (d) \$297,800

4. As at December 31, 2007 ZZ Ltd. discovers that the ending inventory is overstated (too high). Which of the following statements is true if the error is not corrected?
 - (a) Gross profit for 2007 will be overstated.
 - (b) Gross profit for 2008 will be overstated.
 - (c) Cost of goods sold for 2008 will be understated.
 - (d) None of the above statements is true.

5. Laverne Corporation wants to improve its “Free cash flow” in the current period. Which of the following actions will not actually achieve this objective?
 - (a) Reduce cash dividend payments to shareholders.
 - (b) Reduce the time it takes to collect customer receivables.
 - (c) Delay making capital expenditures with cash until the next reporting period.
 - (d) Delay issuing new common shares for cash until the next reporting period.

6. Which of the following actions will not improve an existing debt to total assets ratio of 50%?
 - (a) Purchase merchandise inventory on account.
 - (b) Issue common shares in exchange for existing long-term debt.
 - (c) Make additional sales on account in excess of the related cost of goods sold.
 - (d) Make additional cash sales in excess of the related cost of goods sold.

Use the following information for multiple choice questions 7 to 11.

Morton Corp. uses the periodic inventory method and the following inventory information is available for 2008:

			<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Jan.	1	Beginning inventory	100	\$2	\$ 200
April	15	Purchase	500	\$3	1,500
Aug.	22	Purchase	100	\$4	400
Dec.	20	Purchase	300	\$5	1,500

A physical count of inventory on December 31 revealed that there were 360 units on hand (in stock).

7. If the FIFO cost flow assumption is used, the cost of ending inventory is:
 - (a) \$1,740
 - (b) \$1,800
 - (c) \$980
 - (d) \$720

8. If the FIFO cost flow assumption is used, cost of goods sold for the year is:
 - (a) \$2,820
 - (b) \$1,800
 - (c) \$2,620
 - (d) \$1,860

9. If the Weighted Average cost flow assumption is used, the cost of ending inventory is:
- (a) \$1,296
 - (b) \$1,260
 - (c) \$1,440
 - (d) \$2,600
10. If the Weighted Average cost flow assumption is used, the cost of goods sold for the year is:
- (a) \$2,340
 - (b) \$2,160
 - (c) \$1,960
 - (d) \$2,304
11. Which of the following statements is true for Morton Corp.?
- (a) Cost of goods available for sale for 2008 is higher under FIFO compared to Weighted Average.
 - (b) Gross profit for 2008 is higher under Weighted Average compared to FIFO.
 - (c) Cost of goods sold for 2008 is higher under FIFO compared to Weighted Average.
 - (d) None of the above statements is true.
12. On January 1, 20A, Taylor Corporation had retained earnings of \$6,500,000. During 20A, Taylor had net income of \$1,050,000 and declared dividends of \$450,000. What is the amount of Taylor's retained earnings at the end of 20A?
- a) \$7,550,000.
 - b) \$6,950,000.
 - c) \$7,100,000.
 - d) None of the above.
13. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset of the business?
- a) Economic entity assumption.
 - b) Revenue principle.
 - c) Full disclosure principle.
 - d) Cost principle.
14. The financial statement that reports the financial position of a business is the
- a) statement of earnings.
 - b) balance sheet.
 - c) statement of cash flows.
 - d) footnotes to the financial statements.

Use the following information to answer multiple-choice questions 15 to 18:

A Ltd. follows the accrual concept. The comparative balance sheet includes the following:

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2007</u>
<i>Current assets</i>		
Interest receivable	\$12,000	\$9,000
Prepaid insurance	\$ 6,000	\$4,000
<i>Current liabilities</i>		
Wages payable	\$ 5,000	\$1,000
Income taxes payable	\$ 2,000	\$8,000

An examination of the Cash account showed that during 2008 A Ltd.

Received \$22,000 for interest.

Paid \$20,000 for insurance premiums.

Paid \$93,000 for wages.

Paid \$46,000 for income taxes

15. Interest income in 2008 was
- (a) \$22,000
 - (b) \$25,000
 - (c) \$9,000
 - (d) \$28,000
 - (e) \$34,000
16. Insurance expense in 2008 was
- (a) \$16,000
 - (b) \$6,000
 - (c) \$18,000
 - (d) \$20,000
 - (e) \$24,000
17. Wages expense in 2008 was
- (a) \$97,000
 - (b) \$101,000
 - (c) \$103,000
 - (d) \$93,000
 - (e) \$98,000
18. Income tax expense in 2008 was
- (a) \$46,000
 - (b) \$50,000
 - (c) \$34,000
 - (d) \$48,000
 - (e) \$40,000

PROBLEM 1, continued

PART B (9 marks)

(Fill in the blanks – transaction analysis)

On December 31, 2008, Lance Limited prepared a statement of earnings and balance sheet, but failed to make five adjusting entries.

Here is the data for the five adjusting entries that were not made:

- (1) Amortization of \$5,000 on equipment was not recorded.
- (2) Salaries amounting to \$8,000 for the last two days in December were not paid and not recorded. The next payroll will be in January.
- (3) Rent of \$12,000 was paid for two months (December and January) in advance on November 30. The entire amount was debited to Prepaid Rent (and Cash was credited) when it was paid to the landlord.
- (4) Water tax expense was estimated to be \$2,000 for 2008, but no entry was made. The water tax will be paid in 2009.
- (5) Services worth \$3,000 were completed by Lance Limited on December 30, 2008 but no invoice was sent to the client, nor was the transaction recorded.

Instructions

Complete the following tabulation to correct the indicated financial statement amounts as at December 31, 2008 (show deductions in parentheses; if there is no effect, write “NE”). Ignore income taxes.

The answer for item (1) is given as an example.

<u>Item</u>	<u>Net Earnings</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Shareholders' Equity</u>
Incorrect balances	\$40,000	\$120,000	\$50,000	\$70,000
Effects of:				
Amortization	<u>(5,000)</u>	<u>(5,000)</u>	<u>NE</u>	<u>(5,000)</u>
Salaries	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Rent	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Water tax	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Services provided	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Correct balances	<u> </u>	<u> </u>	<u> </u>	<u> </u>

PROBLEM 2 (8 marks; 12 minutes)

Refer to the information for Lance Limited on the preceding page (i.e., Part B of Problem 1). Show the adjusting journal entry that Lance should have made in each case (1) to (5).

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PROBLEM 3 (24 marks; 50 minutes)

The following is selected information for **X Ltd.** X Ltd. uses a periodic inventory system.

- Jan. 5 Purchased merchandise inventory from **Y Limited** for \$200,000 on account. Terms are 2/10, n/30, FOB shipping point.
- Jan. 6 Received a \$500 cash deposit from **H Ltd.** for services to be rendered in February.
- Jan. 8 Purchased miscellaneous office supplies from **Z Ltd.** for \$800 cash.
- Jan. 9 Sold merchandise to **A Ltd.** for \$40,000 on account. Terms are 2/10, n/30, FOB shipping point.
- Jan. 11 The appropriate party paid freight charges of \$50 cash relating to the transaction of Jan. 9.
- Jan. 12 Returned to **Y Limited** \$10,000 of the merchandise inventory purchased on Jan. 5.
- Jan. 14 Paid **Y Limited** the amount owing.
- Jan. 25 Collected the amount owing from **A Ltd.**
- Jan. 26 Issued additional shares to investors for \$50,000 cash.
- Jan. 27 Received \$600 of cash dividends from **Bell Canada Enterprises Inc.**
- Jan. 31 Declared a cash dividend of \$4,000 which will be paid in February.
- Feb. 16 Rendered the services for **H Ltd.** (see transaction of Jan. 6th).
- Feb. 20 Paid the dividend declared on Jan. 31st.

Required

- (a) Record the above transactions in journal entry form on the books of **X Ltd.** If there is no entry on X's books write "no entry". **(16 marks)**
- (b) Refer to the transactions of January 5th, 12th and 14th; record these three transactions in journal entry form on the books of **Y Limited**. Assume that Y Limited uses a perpetual inventory system and marks goods up by 25%, e.g., a sale of \$100 by Y Limited means that the goods originally had a cost of \$80. **(8 marks)**

PROBLEM 4 **(15 marks; 30 minutes)**

The adjusted trial balance of XYZ Consulting Inc. appears below.

XYZ Consulting Inc.
Adjusted Trial Balance
December 31, 2008

	<u>Debit</u>	<u>Credit</u>
Accounts receivable	\$ 6,400	
Cash	2,200	
Office equipment	15,000	
Office supplies	1,800	
Accumulated amortization—office equipment		\$ 4,000
Accounts payable		4,000
Unearned service revenue		11,000
Interest expense	600	
Prepaid expenses	11,600	
Common shares (500 shares issued)		12,000
Note receivable, due February 1, 2009	6,000	
Retained earnings, Jan. 1, 2008		12,400
Dividends declared.....	2,500	
Service revenue		19,500
Dividends payable		2,100
Miscellaneous expense	700	
Amortization expense	2,500	
Interest income		400
Note payable, due January 15, 2010		5,800
Selling and administrative expenses	21,900	
	<u>\$71,200</u>	<u>\$71,200</u>

Required (NB: no adjusting entries are required, and ignore income taxes)

1. Prepare the closing entries as at December 31, 2008. (2 marks)
2. Calculate the net income (net loss) for 2008 – an income statement is not required. (3 marks)
3. Prepare in proper form a classified balance sheet as at December 31, 2008. (9 marks)
4. Based on the balance sheet that you prepared, how much is working capital? (1 mark)

PROBLEM 5**(15 marks; 30 minutes)**

Selected data from the financial statements of DJ Ltd. follow:

	2007	2008
Sales	\$825,000	\$870,000
Cost of goods sold	338,000	300,000
<i>Line is intentionally blank</i>		
Interest expense	2,000	4,000
Income tax expense	23,000	48,000
<i>Line is intentionally blank</i>		
Cash	22,000	60,000
Accounts receivable	56,000	86,000
Merchandise inventory	88,000	98,000
Total current assets	182,000	276,000
Total assets	412,000	520,000
Total current liabilities	74,000	40,000
Long-term liabilities	35,000	56,000
Net income	70,000	130,000
Common share capital	100,000	100,000
Retained earnings	203,000	324,000
Cash flow from operating activities	61,000	107,000
<i>Line is intentionally blank</i>		
Dividends declared and paid	46,000	9,000

Additional information

The market price of the stock at the end of 2007 was \$9 per share, and \$10 per share at the end of 2008. Fifty thousand (50,000) common shares were outstanding throughout each year.

Required

Calculate the ratios noted below for 2008 using the formulae shown in the textbook. In each case, indicate whether DJ's ratio is better or worse than the industry average; the industry average is shown in brackets next to each ratio.

Also, give the definition of each ratio.

- Profit margin ratio (11.6%)
- Inventory turnover ratio (4.1 times)
- Price earnings ratio (5 times)
- Days in inventory ratio (89 days)
- Debt to total assets ratio (44.2%)

End of midterm examination