

# Multiple Choice Questions (10 marks – one mark each)

Use the following data for questions 1, & 2.

Here are key figures from the balance sheet of Nathan Inc. (Nathan) at the end of 2009.

CA	Accounts Receivable	2,000
CA	Inventory	9,000
LA	Equipment	10,000
	Accumulated Amortization - Equipment	6,000
CL	Accounts Payable	3,000
CL	Long Term Debt	8,000
OE	Common Shares	1,000
OE	Retained Earnings	4,000

1. Nathan's current ratio at the end of 2009 is:

- a. 1.0
- b. 0.954
- c. 5.0
- d. 3.67

2. Nathan's debt ratio at the end of 2009 is:

- a. 0.73
- b. 1.0
- c. 0.52
- d. 1.06

$$\frac{71000}{11000}$$

3. The entry to close Utilities Expense would be:

- a. Utilities Expense is a permanent account and therefore does not need to be closed out.
- b. DR Retained Earnings, CR Utilities Expense
- c. DR Utilities Expense, CR Retained Earnings
- d. DR Utilities Expense, CR Accumulated Amortization - Utilities

4. Retained earnings appear on which of the following statements?

- a. Statement of Retained Earnings, Cash Flow Statement, and Income Statement but not the Balance Sheet;
- b. Statement of Retained Earnings and the Balance Sheet but not the Income Statement or the Cash Flow Statement;
- c. Statement of Retained Earnings, Cash Flow Statement, and the Balance Sheet, but not the Income Statement;
- d. Statement of Retained Earnings and the Cash Flow Statement but not Balance Sheet or the Income Statement;
- e. Balance Sheet and Income Statement only.

5. The stable monetary unit concept is the basis for ignoring:
- a. The possibility that the value of inventory might drop below its historical cost;
  - ☒ b. Fluctuations in the value of the Canadian dollar relative to foreign currencies;
  - ☒ c. The effect of inflation in the accounting records;
  - ☒ d. The difference between the appraised value and the actual cost when recording an asset at its historical cost;
  - ☒ e. All of the above.
6. The repayment of a note payable would be classified as a(n):
- a. Investing activity on the Cash Flow Statement;
  - ☒ b. Financing Activity on the Cash Flow Statement;
  - ☒ c. Operating Activity on the Cash Flow Statement;
  - ☒ d. Decrease in Retained Earnings on the Statement of Retained Earnings;
  - ☒ e. Increase in Retained Earnings on the Statement of Retained Earnings.
7. What is the definition of fraud?
- ☒ a. An act causing bodily harm to an unsuspecting individual.
  - ☒ b. A frequent or periodic event that results in the loss of financial resources for an organization.
  - ☒ c. Pretending to be someone else, such as identity theft.
  - ☒ d. Something deceitful done with intent that creates a disadvantage for another.
8. A critical element of internal control over collections of accounts receivable is:
- ☒ a. setting up petty cash account
  - ☒ b. depositing the cash from the cash register on a daily basis
  - ☒ c. the separation of cash-handling and cash-accounting duties
  - ☒ d. using a cheque writing machine
9. The Uncollectible Account Expense account is classified as:
- ☒ a. deducted from Accounts Receivable account on the balance sheet
  - ☒ b. a contra-asset account
  - ☒ c. the cost to the seller of extending credit
  - ☒ d. part of cost of goods sold
10. The amount of accrued interest on December 31 2007, on a \$4,945.00, 90-day, 8% note dated November 21, 2007, is:
- 9 days      1 month
- a. \$44.44
  - ☒ b. \$43.84
  - c. \$100.00
  - d. \$55.56

395.6

32.97

10.83

43.81

### Short Answer Questions (23 marks)

11. a) (3 marks) Briefly explain why unearned revenues are liabilities instead of revenues. Include an example of when unearned revenue would need to be recorded.

Unearned revenue is a liability because we have collected money for something that we must do at a later date. In other words we owe someone a service or good.

ex: Bob paid in advance \$300 for paint services from Paint Co. Painting to be done 40 days later. Paint Co. records \$300 DR cash and \$300 CR to unearned revenue.

b) (4 marks) Ukulele Player Magazine collects cash from subscribers in advance and later delivers magazines to subscribers over a 1-year period. Provide the properly formatted journal entries that Ukulele Player Magazine would make to:

- (2 marks) Collect \$10,000 of subscription revenue in advance
- (2 marks) Record \$4,000 of earned subscription revenue

i) date      Cash      10,000  
                    Unearned Revenue      10,000  
                    Collected cash for advance subscription

ii) date      Unearned Revenue      4,000  
                    Sales Revenue      4,000  
                    delivered \$4,000 worth of subscription magazine



12. (10 marks) The trial balance of Kihn Corporation as at June 30, 2010 does not balance:

### KIHN CORPORATION TRIAL BALANCE

June 30, 2010

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 2,870	
Accounts Receivable	3,231	
Supplies	800	
Computer Equipment	3,800	
Accounts Payable		\$ 2,666
Unearned Service Revenue		1,200
Common Stock		6,000
Retained Earnings		3,000
Service Revenue		2,380
Wages Expense	3,400	
Office Supplies Expense	940	
Totals	<u>\$15,041</u>	<u>\$15,246</u>

A review of the general journal and the general ledger revealed the following errors:

- A payment in the amount of \$570 was received from a customer on account and was recorded as a debit to Accounts Receivable and a credit to Cash. The amount actually collected was \$750.   
*Handwritten: -570, +750, 1320*
- The purchase of a computer printer in the amount of \$500 was recorded as a \$500 debit to Supplies and a \$500 credit to Accounts Payable.   
*Handwritten: S. - 500, Equip + 500*
- Services were performed on account for a client for \$890. Accounts receivable was debited for \$890 and Services revenue was credited for \$89.   
*Handwritten: Service Rev + 801*
- A payment for \$65 for telephone charges was recorded as a \$65 debit to Office Supplies Expense and also a \$65 debit to Cash.   
*Handwritten: C - 130, OS E - 65, Tel exp + 65*
- When the Unearned Service Revenue account was reviewed, it was found that \$325 of the balance had been earned before June 30.   
*Handwritten: UN ER - 325, SR + 325*
- A debit posting to Wages Expense of \$670 was omitted.   
*Handwritten: C - 670, WE + 670*
- A payment on account for \$206 was credited to Cash for \$206 but was also credited to Accounts Payable for \$260.   
*Handwritten: A/P - 260, + 206*
- A \$575 cash dividend paid was debited to Wages Expense for \$575 and credited to Cash for \$575.   
*Handwritten: Wage Exp - 575, dividend + 575*

**Required:**

Prepare a properly formatted correct trial balance dated June 30, 2010. (Note: It may be necessary to add one or more accounts to the trial balance)

<b>Cash</b> 2870 + 570 + 750 - 130 - 670 <hr/> 3390	<b>A/R</b> 3231 - 570 - 750 <hr/> 1911	<b>Supplies</b> 800 - 500 <hr/> 300	<b>Comp Equip</b> 3800 + 500 <hr/> 4300	<b>Service Rev</b> 2380 + 801 + 325 <hr/> 3506	<b>Supp Exp</b> 940 - 65 <hr/> 875	<b>Unearned</b> 1200 - 325 <hr/> 875	<b>Wages Exp</b> 3400 + 670 <hr/> 4070	<b>Dividen</b> + 575 <hr/> 575	<b>A/P</b> 2666 - 260 + 206 <hr/> 2612	<b>Unearned</b> 1200 - 325 <hr/> 875	<b>Tel Exp</b> + 65 <hr/> 65	<b>RE</b> 3000 + 325 - 575 <hr/> 2750
---	--	--	--	--	---	---	---	--------------------------------------	--	---	------------------------------------	---



# KIHN Corporation

## Trial Balance

### June 30, 2010

	DR	CR
Cash	3390 ✓	
Accounts Receivable	1911 ✓	
Supplies	300 ✓	
Computer Equipment	4300 ✓	
Accounts Payable		2612 ✓
Unearned Service Revenue		875 ✓
Common Stock		6000
Retain Earnings		3000
Dividends	575	
Service Revenue		3506 ✓
Wages Exp	3495 ✓	
Office Supplies Exp	83.5 ✓	
Telephone Exp	65	
Totals	14871	15993

3

13. (6 marks) StorageTek Corporation gathered the following information from its accounting records for the year ended December 31, 2007, prior to adjustment:

Net credit sales for the year \$1,150,000  
 Accounts Receivable (Dec. 31, 2007) 93,000  
 Allowance for Uncollectible Accounts, prior to adjustment (Dec. 31, 2007) 6,000 (debit balance)

StorageTek Corporation uses the allowance method of accounting for bad debts and estimates bad debts at 2.5% of net credit sales. 28750

Required:

- A. (2 marks) Prepare the adjusting entry on December 31, 2007.  
 B. (1 mark) Determine the balance in the Allowance for Uncollectible Accounts account after the adjusting entry is recorded.  
 C. (3 marks) Show how Accounts Receivable would be reported on the December 31, 2007, Balance Sheet for StorageTek Corporation.

A. Dec 31 Allowance for uncollectible Exp 22750  
 Allow for uncollectible Accounts 22750  
 To set up doubtful accounts

B. Allowance for uncollectible Accounts  

6000	Bal
22750	Dec 31
28750	

C. Storage Tek Corp  
 Partial Balance sheet  
 Dec 31 2007  

Accounts Receivable	\$ 93000
Less: Allowance for uncollectible accounts	28750
Net book A/R	64250

**Problems ( marks)**

14. (12 marks) Glenn Griffin, an accountant for Family Lady Inc. made the following adjustments at December 31, 2009, the end of the accounting period.

- a) Prepaid insurance beginning balance was \$700. Payments for insurance during the period were \$2,100. The prepaid ending balance was \$800.
- b) Interest revenue accrued, \$900
- c) Unearned revenue beginning balance was \$800. Unearned service revenue ending balance was \$300.
- d) Depreciation during the period was \$6,200
- e) Employee salaries owed for 3 days of a 5 day work week with a weekly payroll of \$9,000

Required: Journalize the adjusting entries for Family Lady Inc.

	<del>Pre Paid Insurance</del>	2100	
	<del>Cash</del>		2100
	<del>Purchase Insurance</del>		
a)	Insurance Exp ✓	2000	
	<del>Prepaid Insurance</del> ✓		2000
	<del>Used Insurance</del>		
	Interest Receivable	900	
	Interest Revenue		900
	Interest Revenue		
b)	<del>Cash</del> ✓	900	
	<del>Interest Receivable</del> ✓		900
c)	Unearned Revenue ✓	500	
	<del>Service Revenue</del> ✓		500
	<del>perform service</del>		
d)	Depreciation Exp ✓	6200	
	<del>Accum. Deprec.</del> ✓		6200
	<del>To record Depreciation</del>		
	Salary Exp	5400	
	Salary Payable		5400
e)	<del>Salary Payable</del> ✓	5400	
	<del>Cash</del> ✓		5400

I have to make this one as this is what you have indicated as the answer.

calculations?



15. (15 marks) The following information is taken from the records of Lennox-Stewart Corporation for the year 2010:

Loss on discontinuance of Stewart Division	\$ 75,000
Administrative expenses	240,000
Interest revenue	40,000
Cash dividends declared and paid	70,000
Common shares (50,000 shares issued and outstanding)	500,000
Retained earnings, January 1, 2010	600,000
Gain from sale of land	95,000
Cost of goods sold	850,000
Selling expenses	300,000
Sales revenue	1,900,000
Loss from flood <i>to frequent</i>	60,000

Floods occur every two years. Lennox-Stewart Corporation has a 30% income tax rate. There was no change in the number of common shares issued during 2010.

**Required:**

Prepare a properly labeled Income Statement for Lennox Corporation for 2010 in single-step format with all appropriate disclosures (including a calculation for earnings per share at the end of the statement).

*7.5*  
*1.5*

*Lennox Corporation*  
*Income Statement (Single Step)*  
*For the year ended Dec 31, 2010*

<u>Revenue</u>		
Sales Revenue	✓	\$ 1,900,000
Interest Revenue	✓	40,000
Total Revenue		\$ 1,940,000
<u>Less: Expenses</u>		
Cost of goods sold	✓	850,000
Selling Exp.	✓	300,000
Administrative Exp.	✓	240,000
Total Expenses		(1,390,000)
Net income before other revenue & exp.		550,000
Other Revenue		95,000
<del>Common share issued</del>		<del>500,000</del>
Net income before tax		1,145,000
Tax expenses	✓	(343,500)
Net income (loss)		\$ 801,500 X

*EPS?* *format +0.5*

Lennox Corporation  
Statement of Retain Earnings  
For the year end Dec 2010

Retained Earnings Jan 1 2010	\$ 600,000
Add: Net Income	80,300
Less: Dividends	(50,000)
Retained Earnings Dec 2010	<u>\$ 1,321,500</u>



16. (10 marks) Blake Industries received the bank statement for the end of June. The bank statement showed an ending balance of \$45,194. The accountant was surprised because the General Ledger showed a cash balance of \$37,860. Along with the bank statement, the bank sent Blake Industries some memos to let them know that one of the cheques that Blake deposited was returned NSF (in the amount of \$137) and the bank had collected \$387 on a note receivable from one of Blake's customers on Blake's behalf. The accountant noticed that there had been \$4,591 in outstanding cheques and \$2,023 in outstanding deposits at the end of May. The General Ledger records showed that \$24,849 in cheques had been written and recorded in June and \$8,634 in deposits had been written and taken to the night deposit drop off box. On the bank statement, \$19,993 in cheques were taken out of the account and \$7,922 of deposits were added into the account. The accountant did notice that the bank had accidentally increased their account by \$500, noticed a service charge of \$53 and also noticed their monthly vehicle loan payment that came out of their account in the amount of \$505. The accountant had a chuckle, though, when she realized that a journal entry had been recorded for an automatic payment for \$430 that had been coming out of their account for the past year for the lease of a photocopier. The last payment under the lease for the copier had been made last month, so this automatic journal entry had been made in error.

Required: Record any necessary journal entries as a result of the bank reconciliation. (You do not need to prepare a bank reconciliation, just the journal entries.)

1.	AIR	137	✓
	Cash	137	✓
	NSF Cheque		
2.	Service Charge Exp	53	✓
	Cash	53	✓
	Bank Service charge		
3.	Loan Payable	505	✓
	<del>Exp</del> Payment	505	✓
	Cash		
	monthly car loan payment		
4.	Cash	430	✓
	Lease Payable	430	✓
	<del>Accounting error</del>		
	Payment for photocopier lease finished		
5.	Cash	387	✓
	N/R	387	✓
	Bank collected N/R on our behalf		



17. (10 marks) Metro Inc. is a food and pharmaceutical company. Concentrated in Quebec and Ontario, the company operates a network of approximately 600 supermarkets mainly under the Metro, Metro Plus, Super C and Food Basics banners.

- (2 marks) Current Ratio
- (3 marks) Acid-test ratio (Quick Ratio)
- (5 marks) Average collection period (A/R Turnover in days)

Balance Sheet as at

<b>Assets</b>	in Millions of Dollars				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>005</b>
Cash and Equivalents	241	152	100	166	94
Receivables	322	335	328	302	288
Inventories	681	616	588	566	552
Prepaid Expenses	8	8	12	11	15
Current Deferred Income Taxes	30	38	26	17	12
Other Current Assets	-	-	-	-	-
<b>Total Current Assets</b>	<b>1,283</b>	<b>1,148</b>	<b>1,055</b>	<b>1,061</b>	<b>961</b>
Net Fixed Assets	1,306	1,232	1,203	1,130	1,106
Intangibles	325	329	342	332	195
Cost in Excess	1,479	1,490	1,490	1,490	1,544
Non-Current Deferred Income Taxes	4	3	-	-	-
Other Non-Current Assets	270	210	184	151	122
<b>Total Non-Current Assets</b>	<b>3,383</b>	<b>3,263</b>	<b>3,219</b>	<b>3,103</b>	<b>2,966</b>
<b>Total Assets</b>	<b>4,666</b>	<b>4,411</b>	<b>4,274</b>	<b>4,164</b>	<b>3,927</b>

**Liabilities**

	<b>09/2009</b>	<b>09/2008</b>	<b>09/2007</b>	<b>09/2006</b>	<b>09/2005</b>
Accounts Payable	1,111	1,063	1,044	1,050	1,022
Short Term Debt	7	7	5	8	8
Current Deferred Income Taxes	9	6	-	-	-
Other Current Liabilities	25	51	20	37	14
<b>Total Current Liabilities</b>	<b>1,152</b>	<b>1,127</b>	<b>1,069</b>	<b>1,094</b>	<b>1,044</b>
Long Term Debt	1,004	1,005	1,039	1,117	1,205
Deferred Income Tax	165	134	139	115	82
Other Non-Current Liabilities	80	85	89	105	77
Minority Interest	-	-	6	10	6

<b>Total Non-Current Liabilities</b>	<b>1,250</b>	<b>1,223</b>	<b>1,272</b>	<b>1,346</b>	<b>1,370</b>
<b>Total Liabilities</b>	<b>2,402</b>	<b>2,350</b>	<b>2,342</b>	<b>2,440</b>	<b>2,414</b>
Preferred Shareholder's Equity	-	-	-	-	-
Common Shareholder's Equity	2,264	2,061	1,932	1,724	1,513
<b>Total Equity</b>	<b>2,264</b>	<b>2,061</b>	<b>1,932</b>	<b>1,724</b>	<b>1,513</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>4,666</b>	<b>4,411</b>	<b>4,274</b>	<b>4,164</b>	<b>3,927</b>

A) Current Ratio =  $\frac{CA}{CL}$

=  $\frac{1283}{1152} = 1.11$

B) Acid test ratio =  $\frac{\text{Cash} + \text{Receivable} + \text{investments}}{CL}$

=  $\frac{563}{1152} = 0.49$

C) A/R turnover in days =  $\frac{\text{Revenue}}{\text{A/R}}$  =  $\frac{34,277}{363} = 94.7$   
= 10 days