COMMERCE MENTORSHIP PROGRAM

MIDTERM REVIEW SESSION

COMM 293

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Chapter 1. Accounting in Action

1. Which is an economic event?

A. **Monk's Café pays Jerry $250,000 as a signing bonus.**
B. Newman promises to pay Kramer $100,000 a year from now.

A. is an economic event as the financial situation for both parties has changed. B. only shows a promise to pay, but no financial change has occurred.

2. A jester living in the 12th century wishes to travel and clown the king of the neighbouring kingdom, but does not have enough money for the trip. The jester's friend thus lends him money while the king he serves chooses to invest in his travels in exchange for entitlement to part of his future profits. Who is the creditor? Who is the shareholder? Why?

The friend is the creditor because he chose to lend the money. Therefore, it must be paid back in full. Meanwhile, the king chooses to invest in the jester in exchange for part of his future profits. Therefore, the king is now entitled to periodic dividends from the jester.

3. a) If Apple's liabilities are valued at $300,000 and its Shareholders' Equity is valued at $550,000, how much are its assets worth?

A = L + SE

L = $300,000, SE = $550,000
$300,000 + $550,000 = $850,000////
A = $850,000

b) At the beginning of 2023, Pear Inc's assets are worth $80,000 and its liabilities are valued at $60,000. At the end of 2023, Pear Inc's assets are worth $100,000 and its liabilities equal $30,000. What was Pear Inc's Shareholders' Equity at the beginning? What much is it now? What was the change in each account?

A = L + SE → SE = A - L

Beginning of 2023:
A = $80,000, L = $60,000
$80,000 - $60,000 = $20,000
SE = $20,000

End of 2023:
A = $100,000, L = $30,000
$100,000 - $30,000 = $70,000
SE = $70,000

Change = End - Beginning
A = $100,000 - $80,000 = $20,000
L = $30,000 - $60,000 = -$30,000
SE = $70,000 - $20,000 = $50,000

Chapter 2. The Recording Process

1. Dividends, Expenses, and Assets are always debited.
   a) True
   b) False

They are only debited when their values increase.

2. On October, Ross founded Paleontology Clothing, a merchandise store that sells trendy clothing to paleontologists. Journalize the following transactions for October.

October:

1. Ross invests $100,000 in the firm as the sole shareholder.
5. Ross employs his friends and promises to pay them $20,000 each.
7. 4 mannequins are purchased for $3,000 each. Ross pays $5,000 in cash and signs a 2-year note payable at 10% interest for the remaining amount.
13. A bill for $1,500 is received from Dino Tales Magazine, who advertised Ross' store.
17. Paid for 80 dinosaur shirts priced at $20 each with cash.
24. Declared and paid a $800 cash dividend to Ross.
28. Paid $3,000 to Mannequin Cleaner Inc. for a one year mannequin maintenance coverage beginning on November 1.
30. Paid $8,000 for October's rent on account.

October:

1. Dr. Cash	*$100,000*
Cr. Shareholder Investment	*$100,000*
5. No Entry	*N/A*
7. Dr. Mannequins	*$12,000*
Cr. Cash	*$5,000*
Cr. Notes Payable	*$7,000*
13. Dr. Advertisement Expense	*$1,500*
Cr. Accounts Payable	*$1,500*
17. Dr. Dinosaur Shirts	*$1,600*
Cr. Cash	*$1,600*
24. Dr. Dividend	*$800*
Cr. Cash	*$800*
28. Dr. Prepaid Maintenance Expense	*$3,000*
Cr. Cash	*$3,000*
30. Dr. Rent Expense	*$8,000*
Cr. Accounts Payable	*$8,000*

Chapter 3. Adjusting the Accounts

1. a) Boeing Inc. sold $300 worth of planes to EastJet on October 1. Cash was collected for the sale on November 1. When will revenue be recognized? What is the journal entry?

Revenue is recognized on October 1.

October 1:	*Dr. Accounts Receivable*		*$300*
		Cr. Sales Revenue	*$300*
November 1:	*Dr. Cash*		*$300*
		Cr. Accounts Receivable	*$300*

b) Crosby, who works at EastJet, received a commission for selling a $100 plane on October 2. The commission was paid in full on November 2. When will expense be recognized? What is the journal entry?

Expense is recognized on October 1.

October 2:	*Dr. Commission Expense*		*$100*
		Cr. Commission Payable	*$100*
November 2:	*Dr. Commission Payable*		*$100*
		Cr. Cash	*$100*

2. a) Ronaldo pays $6,000 for a one-year lobster tank insurance with cash on January 1, 2023. Record the journal entry on January 1, 2023.

January 1, 2023:	*Dr. Prepaid Insurance Expense*		*$6,000*
		Cr. Cash	*$6,000*

b) It's Febuary 31, 2024, but Ronaldo got too distracted by his lobsters that he forgot to make the journal entry on December 31, 2023. Record the adjusting journal entry.

Febuary 31, 2024:	*Dr. Insurance Expense*		*$6,000*
		Cr. Prepaid Insurance Expense	*$6,000*

c) Did any overstatements or understatements occur when the proper adjusting journal entry was not made on December 31, 2023? If so, what account(s) was/were overstated/understated?

Assets are overstated and expenses are understated.

Chapter 4. Completing the Accounting Cycle

1. It’s time for Napoleon to close his book. Prepare the closing entries.

a) Prepare the closing entries for Napoleon’s Revenue and Gain accounts.

Interest Revenue	
30	30
	0

Service Revenue	
50	50
	0

Sales Revenue	
70	70
	0

Dr. Interest Revenue	*$30*
Dr. Service Revenue	*$50*
Dr. Sales Revenue	*$70*
Cr. Income Summary	*$150*

b) Prepare the closing entries for Napoleon’s Expense and Loss accounts.

COGS	
40	*40*
0	

Interest Expense	
50	*50*
0	

Depreciation Expense	
90	*90*
0	

Dr. Income Summary	*$180*
Cr. COGS	*$40*
Cr. Interest Exp.	*$50*
Cr. Depreciation Exp.	*$90*

c) Close Napoleon’s Income Summary account to Retained Earnings.

Income Summary	
180	*150*
30	

Dr. Retained Earnings	*$30*
Cr. Income Summary	*$30*

d) Close Dividends ($20) to Retained Earnings.

Retained Earnings	
20	*30*
	10

Dividends	
20	*20*
0	

Dr. Retained Earnings	*$20*
Cr. Dividends	*$20*

Chapter 5. Accounting for Merchandising Operations

1. Claire bought $4,000 worth of merchandise from Claire's on account to sell at her pottery class.

a) If Claire pays for the $3 delivery cost on account, what is the journal entry for Claire and Claire's?

Claire:	*Dr. Inventory*	*$3*
	Cr. A/P	*$3*
Claire's:	*No Entry*	

b) If Claires pays for the $3 delivery cost, what is the journal entry for Claire and Claire's?

Claire:	*No Entry*	
Claire's:	*Dr. Delivery expense*	*$3*
	Cr. A/P	*$3*

c) Claire realized she can't afford her Sauder tuition and must return $70 of Claire's' merchandise. Assuming the perpetual inventory system is used, what is Claire's (not Claire's') journal entry?

Dr. A/P	*$70*
Cr. Inventory	*$70*

d) Claire realized that $1,200 worth of Claire's' merchandise is damaged and wishes to receive an allowance. Assuming the periodic inventory system is used, what is Claire's (not Claire's') journal entry?

Dr. A/P	*$1,200*
Cr. Purchase Allowance	*$1,200*

Chapter 6. Inventory

1. Chanandler opened a make-up brand. Bloomingdales agrees to act as a consignor for Chanandler. On January 2, Bloomindales sold $800 worth of Chanandler's make-up. Record Bloomindale's journal entry.

There is no journal entry because of Revenue Recognition. Chanandler has ownership of the sold inventory. Bloomindale will only have a journal entry once Chanandler pays them a commission.

2. A gatekeeper wants to opens a candle lighting pop-up stand at the front of their gate. They bought 50 candles at $1 each on Day 1, 60 candles at $2 each on Day 2, and 3 candles at $100 each on Day 3. On Day 4, they sold 70 candles at $10 each.

a) Using FIFO, what is the COGS? What is Ending Inventory Balance?

*COGS: 50*$1+10*$2 = $70*
*EIB = (50*$1+60*$2+3*$100)-$70 = $400*

b) Using LIFO, what is the COGS? What is Ending Inventory Balance?

*COGS: 3*$100+60*$2+7*$1 = $427*
*EIB = (50*$1+60*$2+3*$100)-$427 = $43*

c) Using the Average Cost Method, what is the COGS? What is Ending Inventory Balance?

*Average Cost = (50*$1+60*$2+3*$100)/113 = $4.1593*
*COGS: 70*$4.1593 = $291.15*
*EIB = 400*$4.1593 = $1663.72*

Chapter 8. Accounts Receivable

1. a) Binotto decided he has too much physical cash, so he went to the local petting zoo and bought Laughing Cow Energy Drinks at a value of $1,000 from Horner and received a 5% discount on his purchase. Record the journal entry for Horner.

Dr. Cash	*$950*
Dr. Sales Discount	*$50*
Cr. Sales Revenue	*$1000*

b) Binotto returned $2 worth of Laughing Cow Energy Drinks to Horner. Record the journal entry for Horner.

Dr. Sales Returns and Allowances	*$2*
Cr. Cash	*$2*

2. Homer and Marge Inc. has a net credit sale of $8,000. It uses the Percentage of Credit Sales bases and estimates that 1% of its net credit sales will be uncollectible. What is the estimated bad debt expense? Record the journal entry.

BDE = Net Credit Sales * Uncollectible %

*BDE = $8,000 * 1%*
= $800

Journal:

Dr. BDE	*$800*
Cr. ADA	*$800*

3. Hormer and Co. has a net credit sale of $4,000, cost of goods sold of $5,300, average net accounts receivables of $3,400, and net income of $2,500,800. What is its receivables turnover?

Receivables Turnover = Net Credit Sales/Average Net Accounts Receivable

$5,300/$3,400 = 1.56