2021 Fall Midterm 2 - COMM 217 FINANCIAL ACCOUNTING

Financial Accounting (Concordia University)

CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

EXAM 2, FALL 2021
DURATION: 2 HOURS

Name: ________________________________ ID: ________________ Section: _____

Instructions (very important):

1. All questions must be answered in a word document (.doc or .docx). You may answer the questions in any order you prefer, make sure to identify the question you are answering. You should name the file as follows: Familyname_Firstname_StudentID#.

2. Write your FULL name (last name & first) and Student ID on top of the first page of the document carrying your answers.

3. If an answer to a question requires calculations, show the details to earn the allocated marks, except for multiple choice questions which are marked as correct or incorrect, regardless of showing detailed calculations. Omit narrative explanations for journal entries.

4. Abbreviating any names (for example: account names, headings, subheadings, totals, subtotals, etc.) may be subject to mark deduction.

5. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language or digital dictionary are permitted.

GOOD LUCK!

Exam Breakdown:

Question	Topic	Total Marks
A	Bank Reconciliation	10
B	Accounting for Long-Lived Assets	24
C	Accounting for Receivables (Multiple Choice)	14
C	Accounting for Inventory and Cost of Sales (Multiple Choice)	22
	Total	**70**

Question A: Bank Reconciliation (10 marks; 15 minutes)

You have recently started an internship in BankRec, Inc., a financial services company. Your supervisor provided you with the following information and asked you to prepare a bank reconciliation for BankRec, Inc., as at October 31, 2021.

Cash balance per books, October 31	$7,000
Outstanding cheques, October 31	840
Deposit in transit, October 31	625
October bank service charges	10
Balance per bank statement	6,885

Other information:

- The bank service charges for October have not been recorded by BankRec.
- A customer's cheque for $500 was returned by the bank NSF (Not Sufficient Funds). BankRec. intends to recover the funds from the customer.
- A cheque to a supplier for payment on account was erroneously entered as $752 on BankRec's records, but was correctly written as $572 on the cheque itself and cashed as $572 by the bank.

Required:

1. Prepare a bank reconciliation for BankRec, Inc. as at October 31, 2021. (5 marks)
2. Prepare the journal entry or entries needed to adjust BankRec's accounts at October 31. (3 marks)
3. A bank reconciliation is an important element of a system of internal control. Briefly describe two other internal control policies related to cash. (2 marks)

Question B: Accounting for Long-Lived Assets (24 marks; 45 minutes)

Akira Ltd., purchased a building near Montreal and the land on which it was built for $850,000. The previous owner paid $1,200,000 for the land and building. A recent independent appraisal valued the land and building at a market value of $1,000,000, of which $400,000 was attributed to the land.

Akira paid $250,000 is cash and signed a note for $600,000, payable in one year. Akira also paid $50,000 in legal fees and $10,000 for unpaid property taxes. Akira spent $160,000 on renovations and alterations to the building so it would be suitable for the company's purposes. The building is estimated to have a useful life of 20 years and a residual value of $80,000.

Akira also purchased machinery with a list price of $320,000, but the company received a 5% cash discount for prompt payment. Akira paid $22,000 for transportation of the machinery and $24,000 for installation costs. The machinery has no residual value and is expected to produce 700,000 units of product over its economic useful life. 30,000 units were produced during the first year and 48,000 units were manufactured in the second year.

In addition, Akira purchased five delivery trucks for a total of $300,000. The trucks have an estimated useful life of five years and a residual value of $8,000 each. Licensing and insurance fees for the five trucks amounted to $5,000, which the company paid in cash.

Akira uses the following methods to depreciate these assets:

- Building: Straight-line
- Machinery: Units of production
- Trucks: Declining balance, using a rate of 30% of the carrying amount (net book value)

Required:

1. Prepare journal entries to record the purchase of the land, building, machinery and trucks in separate asset accounts. (11 marks)
2. Prepare the journal entry to record the depreciation expense on the building for the first year of operations. (3 marks)
3. Calculate the depreciation expense on the machinery for the second year of operations. (1.5 marks)
4. Calculate the depreciation expense on the five trucks for the second year of operations. (2 marks)
5. Akira sold one of the five trucks at the beginning of the third year for $35,000 in cash. Prepare the journal entry to record the sale of the truck. (3.5 marks)
6. What are intangible assets? Give two examples. How should these assets be measured and reported in the financial statements? (3 marks)

Question C: Multiple Choice Questions: (36 marks; 18 questions, 2 marks each; 60 minutes)

Use the following information to answer questions 1 to 7:

In October 2019, you acquired a grocery store. To compete with the large grocery chains, you decide to offer some customers credit terms of 30 days. Total sales for the year ended September 30, 2020 were $900,000, of which $250,000 were on credit. Five customers declared bankruptcy or left town without a forwarding address, and their accounts (which totaled $4,300) were written off. The balance of the accounts receivable, after the write off, was $24,700.

Total sales for the next fiscal year were $1,060,000, of which $760,000 were for cash. Six customers' accounts totaling $5,400 were written off, and the ending balance in the accounts receivable was $31,900 as at September 30, 2021.

Assume for questions 1 to 4 that the **percentage of credit sales** method is used to estimate bad debts expense for both fiscal years, 2020 and 2021. Industry statistics indicate that bad debts average 3% of credit sales. (*Hint: use T-accounts to keep track of the various details*.)

1. The journal entry to record the write-off of accounts receivable during **2020** should include:

   A. A debit to bad debts expense for $4,300.
   B. A credit to allowance for doubtful accounts for $4,300.
   C. A debit to accounts receivable for $4,300.
   D. A debit to allowance for doubtful accounts for $4,300.

2. The journal entry to record the estimated bad debts expense for **2021** should include:

   A. A debit to bad debts expense for $9,000.
   B. A credit to accounts receivable for $9,000.
   C. A debit to bad debts expense for $22,800.
   D. A debit to bad debts expense for $7,500.

3. The ending balance of the allowance for doubtful accounts at September 30, **2021** is:

   A. $3,200.
   B. $3,600.
   C. $6,800.
   D. impossible to determine without additional information.

4. The accounts receivable turnover ratio for fiscal year **2021** equals:

   A. 10.60
   B. 12.88
   C. 26.86
   D. 32.62

Assume for questions 5 to 7 that the **aging of accounts receivable** method is used to estimate bad debts expense. You prepare the following analysis of aged accounts receivable at the end of the fiscal years, 2020 and 2021. (*Hint: use T-accounts to keep track of the various details*.)

Analysis of Aged Accounts Receivable				
	Not Yet Due	**Past Due**		
	Current	**1 – 60 days**	**Over 60 days**	**Total**
Accounts receivable, 9/30/2020	$18,400	$4,700	$1,600	$24,700
Accounts receivable, 9/30/2021	24,300	5,600	2,000	$31,900
Estimated % uncollectible	10%	40%	75%	

5. Based on your analysis of aged accounts receivable, what should be the balance of the allowance for doubtful accounts at September 30, **2020**?

   A. $4,920.
   B. $6,170.
   C. $11,090.
   D. $770.
   E. None of the other amounts.

6. The journal entry to record the estimated bad debts expense for **2021** should include:

   A. A debit to bad debts expense for $770.
   B. A credit to allowance for doubtful accounts for $5,690.
   C. A debit to bad debts expense for $1,250.
   D. A debit to bad debts expense for $6,650.

7. Which of the following statements is <u>incorrect</u> when arguing in favour of using the aging of accounts receivable method instead of the percentage of credit sales method?

   A. The aging of accounts receivable method generally results in a more accurate valuation of the net accounts receivable on the statement of financial position.
   B. The aging of accounts receivable method matches bad debts expense with credit sales in the same period.
   C. The aging of accounts receivable method takes into account past experience by adjusting for previous under- or overstatement of the allowance account.
   D. The aging of accounts receivable method is more difficult to implement than the percentage of credit sales method.

Use the following information to answers questions 8 to 14:

Whitby Inc. is a wholesaler that uses a perpetual inventory system. The company's accounting records provided the following transactions for Product B during the fiscal year ended on December 31, 2020.

Date	Transactions	Units	Unit Cost	Sale Price
March 5	Purchase	19,000	$ 9	
June 15	Sale	10,000		$27
September 19	Purchase	8,000	11	
November 20	Sale	16,000		30

Additional information:

- The beginning inventory consisted of 7,000 units at a total cost of $56,000.
- All sales are made on account with credit terms, 2/10, n/30.
- Customers who purchased 10,000 units on November 20 paid the amount due within the discount period. All other customers paid their accounts receivable after the discount period.

At the start of each question below, we indicate whether the First-in, First-out (FIFO) method or the Weighted Average Cost (WAC) method is used.

8. (**FIFO**) The cost of ending inventory at December 31, 2020 is:

   A. $11,000.
   B. $88,000.
   C. $80,000.
   D. $10,000.

9. (**FIFO**) The cost of sales for 2020 is:

   A. S248,000.
   B. $235,000.
   C. $227,000.
   D. $304,000.

10. (**FIFO**) The gross profit percentage for 2020 is:

   A. 69.49%
   B. 69.73%
   C. 68.41%
   D. 59.14%
   E. None of the other percentages.

11. (**FIFO**) Assume for this question only that the cost of sales is $240,000. In that case, the inventory turnover ratio for 2020 would equal:

    A. 3.33
    B. 2.45
    C. 3.53
    D. 43.63
    E. None of the other ratios.

12. (**WAC**) The average cost per unit of the 10,000 units sold on June 15 is:

    A. $10
    B. $9.33
    C. $8.50
    D. $8.73

13. If Whitby used a periodic inventory system instead of a perpetual system, which of the following statement would be <u>correct</u>?

    A. If the FIFO method is used, the cost of sales under the periodic system would be different from the cost of sales under the perpetual system.
    B. If the WAC method is used, the cost of ending inventory at December 31, 2020 under the periodic system would be smaller than the cost of ending inventory under the perpetual system.
    C. There is a need for a physical inventory count if the periodic system is used, but that is not necessary if the perpetual system is used.
    D. Both inventory control systems are equally efficient in keeping track of inventory quantities and costs throughout the accounting period.

14. Assume that Whitby purchased goods for $2,000 from a local supplier on December 30, 2020 with terms F.O.B. shipping point. The merchandise had not arrived at the company's warehouse until January 2, 2021, and was not included in the inventory count at year end. What effect would this error have on the company's cost of sales and net earnings for 2020? The company's income tax rate is 40 percent.

	Effect on Cost of Sales	**Effect on Net Earnings**
A.	Understated by $2,000	Overstated by $1,200
B.	Overstated by $2,000	Understated by $1,200
C.	Understated by $2,000	Overstated by $800
D.	Overstated by $2,000	Understated by $800

Questions 15 to 18 are independent of each other:

15. CDX Inc., uses a periodic inventory system. Consider the following summarized transactions and selected information for CDX's most recently completed fiscal year:

Gross purchases (all on account)	$71,700
Purchases returns and allowances	2,000
Merchandise inventory, January 1	15,000
Merchandise inventory, December 31	19,000
Cash payment to suppliers	52,000

Based on these details, the cost of sales for the year is:

A. $67,700
B. $13,700
C. $65,700
D. $48,000

16. The ending inventory of Corner Store Inc. includes items which originally cost $10,000. These items have a market value of $11,000 and a net realizable value of $9,000 at year end. Accordingly, the inventory should be reported on the company's statement of financial position at:

A. $11,000.
B. $10,000.
C. $ 9,000.
D. $ 9,500 (the average of $10,000 and $9,000).
E. Another amount that can only be determined by a physical count of the inventory at year end.

17. Ozak Company reported the following information for a recent year: gross sales, $196,500; sales returns and allowances, $3,700; sales discounts, $1,750 and shipping expenses, $1,400. Ozak's net sales would equal:

A. $196,500
B. $192,800
C. $191,050
D. $189,650

18. Under the periodic inventory system,

A. The cost of sales is recorded for each sale.
B. No separate information is kept to control inventory shrinkage.
C. The ending inventory is calculated by subtracting the cost of sales from the cost of goods available for sale.
D. The cost to run the system is usually higher than that for the perpetual inventory system.