



Work Midterm Review Example

Financial Accounting (Concordia University)



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MIDTERM REVIEW #1

Question #1

Bourne Inc. is a company that specializes in manufacturing and selling eco-friendly home decor products. The company started its operations in 2023. Its year end is December 31, 2023. The following transactions occurred on December 1, 2023:

- a) Received \$90,000 cash from investors in exchange for 30,000 shares in the new company.
- b) Purchased a warehouse for \$30,000 and signed a five-year 6% note.
- c) Acquired woodworking machinery for \$45,000; paid \$25,000 cash and signed a one year 5.5% note for the remaining balance.
- d) Purchased \$50,000 of inventory on account.
- e) Paid \$5,000 cash for a 2-year office rental; Bourne Inc. occupied the office the same day as the payment.
- f) Settled \$4,000 on accounts payable for previously purchased materials.
- g) Sold eco-friendly decor products for \$80,000 cash throughout the year. Gross profit on the sales was 55%.
- h) Incurred \$25,000 in wages payable to employees for the year.
- i) Paid \$6,000 cash for utilities and office expenses.
- j) Provided consulting services on eco-friendly designs for \$8,000, on account.

Required:

i. Record the effects of each of the events above on the appropriate accounts. Do not record adjusting transactions.

- SEE EXCEL SHEET.

ii. Prepare in proper form a classified statement of financial position for Bourne Inc. as at December 31, 2023. Ignore any tax related effects. Hint: Calculate the closing Retained Earnings balance by taking into consideration the company's revenues and expenses for the fiscal year.

- SEE EXCEL SHEET.

iii. Assume all sales were on account and compute the following ratios at December 31, 2024, and provide one sentence per ratio to interpret your answers.

- 1. Current ratio,
- 2. Total asset turnover (use the year-end balance of total assets only)
- 3. Return on assets (use the year-end balance of total assets only),

- SEE EXCEL SHEET.

- iv. Assume that all of the above transactions (a to j) took place on December 1, 2023 and further assume the following:
1. Depreciation for the year is \$3,000 for the warehouse and \$5,000 for the equipment.
 2. The Company uses the percentage of accounts receivable method to estimate the amount of accounts receivable that may be uncollectable in the future. Based on prior experience the Company estimates that 2.5% of receivables may be uncollectible.
 3. The Company's tax rate is 20%.

Required: record adjustments for Bourne Inc. on December 31, 2023 for the following accounts/events:

- Adjustments prepared here in word and not in the excel sheet.

- Depreciation
 - Bad debts
 - Tax
 - Interest
 - Any prepayments
 - Cash

State which accounts require adjusting, the direction of the adjustment and the value of the adjustment. If any of the following accounts/events do not require an adjustment, explain why in one sentence. Write your answers as per the format below.

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Question #2

Wong Inc. uses the aging of accounts receivable method to estimate bad debts. The company's financial statements include the following information:

| | <u>December 31, 2021</u> | <u>December 31, 2022</u> |
|---------------------------------|--------------------------|--------------------------|
| Accounts receivable | \$45,000 | \$53,000 |
| Allowance for doubtful accounts | 8,000 Credit | 10,000 Credit |

The following activities occurred during 2022:

- The company sold products to customers for \$60,000 in cash and \$265,000 on account with credit terms, n/30. The cost of sales was \$185,000.
- Customers that owed \$250,000 to Wong Inc. paid the amounts due within the credit period.
- A few customers experienced financial difficulties which forced them to close their businesses. Thus, the company considered the amounts owed by these customers as uncollectible. The amounts written off are not specified but can be derived from the information given in the question.

Required #1

Required:

- For each of the activities described in items a) through c) during the year 2022, indicate the account titles that are affected, the type of account (A for asset, L for liability, R for Revenue and E for Expense), the amount, and the direction of the change (increase, + or decrease, -)

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Transaction A

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Transaction B

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Transaction C

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Required #2

2. Compute the amount of bad debt expense for 2022 and identify the accounts that need to be adjusted. (2.5 marks)

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Required #3

3. Will the bad debt expense change if Wong recovered during 2022 an amount of \$1,000 from a customer whose account was previously written off? If your answer is no, explain why. If your answer is yes, will the bad debt expense increase or decrease, and by how much? (1.5 marks)

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|---------------------------|--|
| Opening AFDA | |
| Write-off | |
| Account Reinstatement | |
| Balance before adjustment | |
| Bad Debts Expense | |
| Closing AFDA | |

Question #3

On September 1st, Bourne Inc. downloaded its bank statement for the month of August. After comparing the bank statement with the entries it made in its accounting records, Bourne Inc. found that the bank statement showed a balance of \$12,506.60 but its accounting records showed a balance of \$12,651.65 on August 31.

Bourne Inc.'s review of the bank statement showed the following:

- a. Three cheques (#124, #125, #126) that it wrote August 28th have not been withdrawn from its bank account yet. They totaled \$619.35
- b. An automatic deduction of \$44.10 was made to pay the hydro bill for August.
- c. Another automatic deduction of \$55.30 was made to pay for its cellphone.
- d. Bourne Inc. forgot to record in its accounting record an additional rent withdrawal from the ATM machines totaling \$300.
- e. A cheque for \$385 that it deposited in the bank the night of August 31st, did not appear on the bank statement.
- f. Bourne Inc. discovered that he recorded cheque #123 as \$96.25 but the correct amount that cleared its bank account was \$69.25. The cheque was used to purchase office supplies. The company's policy is to expense these items immediately.
- g. The bank charged Bourne Inc. a service fee of \$7 for August transactions.

Required:

- i. Assume the role of Bourne Inc. and prepare a bank reconciliation on August 31
- ii. What adjustments are needed to fix Bourne Inc. cash balance per the accounting books?

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Adjustments: