COMM217- midterm practice

Financial Accounting (Concordia University)

CONCORDIA UNIVERSITY **FINANCIAL ACCOUNTING**
DEPARTMENT OF ACCOUNTANCY

The mid term exam uses Transaction analysis, meaning indicate account name, if it inc + or Dec -, and provide adjusted balances when asked.

Question 1 (21 marks; 38 minutes) ***Multiple choice***

For each of the following, choose the letter that corresponds to the **best** answer, and **write the letter in your examination booklet, not on this examination paper**. Each correct answer is worth 1.5 marks.

1. Selling inventory at a price in excess of its cost will cause
   a. no change in total assets as the decrease in inventory is offset by increases in other asset accounts.
   b. a change in total assets; however, the effect on total assets will be different depending on whether the sale was for cash or on account.
   c. an increase in total assets and an increase in total liabilities.
   d. an increase in total assets and an increase in shareholders' equity.

2. Hamed Salem is the sole owner and manager of Hamed Auto Repair Shop. In 2027, Hamed purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Hamed from recording the cost of the new automobile as an asset to the business?
   a. Separate-entity assumption.
   b. Revenue principle.
   c. Full disclosure.
   d. Cost principle.

3. Which of the following would most likely lead to an accrual adjustment?
   a. Interest revenue earned but not yet collected
   b. Wages incurred as an expense but not yet paid
   c. Rent revenue accumulated not yet received from the tenant
   d. All of these are accrual adjustments
   e. None of these is an accrual adjustment

4. Which of the following statements is correct?
   a. The sale of an investment in bonds (long-term debt issued by another company) for less than the carrying value of the investment would be reported as cash outflow from investing activities.
   b. The sale and issuance of shares for cash would be reported as a cash inflow from investing activities.
   c. The retirement of bonds payable by the issuance of common shares would be reported as a cash inflow from investing activities.
   d. Collecting cash interest revenue on a note receivable would be reported as a cash inflow from operating activities.

5. Consider the following elements of an income statement: sales revenue, $400,000; cost of goods sold, $310,000; operating expenses, $60,000; other revenue, $10,000; and income tax expense, $8,000. The gross profit percentage would then equal:

a. 7.5%　　b. 8%　　c. 22.5%　　d. 25%

6. If the allowance method for estimating uncollectible accounts is used, the write off of an account receivable
   a. increases the net realizable value of accounts receivable.
   b. does not change the net realizable value of accounts receivable.
   c. decreases the net realizable value of accounts receivable.
   d. changes the net realizable value of accounts receivable, but the direction of the change (increase or decrease) depends on the amount that is written off.

7. The cash records and the bank statement of AAA Company showed the following at the end of February 2028:

Outstanding cheques, January 31, 2028	$ 8,000
Cheques written by AAA Company during February 2028	53,000
Cheques cleared by the bank during February 2028	57,000

   Therefore, the amount of outstanding cheques at the end of February 2028 should be

   a. $2,000. b. $4,000. c. $6,000. d. $8,000.

8. Which of the following statements does **not** refer to an objective of financial reporting?
   a. Accounting provides information that is useful in investment and credit decisions.
   b. Accounting provides information about enterprise resources, claims to those resources, and changes in them.
   c. Accounting provides information on the liquidation value of an enterprise.
   d. Accounting provides information that is useful in assessing cash flow prospects.

9. Alto Corporation reported sales for 2027 of $600,000 of which one-half was on credit. The balance of accounts receivable was $40,000 at December 31, 2026 and $60,000 at December 31, 2027. The average collection period for Alto for 2027 was:

   a. 30.4 days b. 36.5 days c. 60.8 days d. 73.0 days

10. At the <u>end of 2027</u>, the following data were taken from the accounts of Timberline Company:

Retained earnings, January 1, 2027	100,000
Total revenue earned during 2027	190,000
Total expenses incurred during 2027	180,000
Total cash collected during 2027	200,000

   The 2027 closing entries would include a

   a. debit to retained earnings for $100,000.
   b. credit to retained earnings for $180,000.
   c. credit to retained earnings for $190,000.
   d. credit to retained earnings for $200,000.

11. The matching principle controls

    a. where the expenses should be presented on the income statement.
    b. how costs are allocated between Cost of Goods Sold and general and administrative expenses.
    c. the ordering of current assets and current liabilities on the balance sheet.
    d. when costs are recognized as expenses on the income statement.

12. Which of the following statements is **incorrect** in defining *materiality*?
    aMateriality requires that financial statements are accurate to the nearest dollar, but need not show cents.
    b. Materiality is based upon what users of financial statements are thought to consider important.
    c. Materiality permits accountants to ignore other generally accepted accounting principles in certain situations.
    d. Materiality permits accountants to use the easiest and most convenient means of accounting for events that are immaterial.

13. On February 20, 2028, Compak Ltd. sold 30 computers to Computer Shop Inc (CSI). The selling price of the computers is $500 each. The terms of the sale are 2/10, n/30. CSI paid the appropriate amount on February 29. What is the amount of net sales that Compak Ltd. should recognize in February 2028?

    a. $15,000.
    b. $14,400.
    c. $14,700.
    d. $14,000.

14. Two basic accounting principles determine when revenues and expenses should be recorded under accrual accounting. They are respectively:

    a. revenue and matching.
    b. cost and matching.
    c. relevance and reliability.
    d. revenue and periodicity assumption.

QUESTION 2 (28 marks; 50 minutes) *Prepare transaction analysis and financial statements*

High Tech. Quebec Inc. (HTQ) has just completed its current year of operations. The unadjusted trial balance as at December 31, 2027 includes the following accounts (listed in alphabetic order) and related balances.

	Debit	Credit
Accounts payable		$ 16,000
Accounts receivable	$40,000	
Accumulated amortization, equipment		4,500
Cash	15,000	
Cost of goods sold	64,000	
Equipment, at cost	15,000	
Merchandise inventory	28,000	
Miscellaneous expenses	500	
Note receivable, due 2028	10,000	
Prepaid rent	8,000	
Rent expense	5,500	
Retained earnings, Jan. 1, 2027		33,000
Sales returns and allowances	2,000	
Sales revenue		140,500
Share capital (15,000 shares)		15,000
Unearned revenue		2,000
Wages expense	23,000	
Totals	$211,000	$211,000

HTQ's accountant has **not** recorded the required journal entries for the following external and internal transactions:

a) As at December 31, 2027, $2,000 of wages was owed to employees. No entry has yet been made for the unpaid wages.
b) The note receivable was received by HTQ on January 1, 2026 and is due on December 31, 2028. It carries a 10% interest rate, payable to HTQ annually on January 1 of the following year.
c) On December 31, 2027, HTQ purchased land for $15,000 as a site for a future retail store. HTQ raised the required amount from the local bank by signing a note for $15,000, payable to the bank on December 31, 2029 with interest at 8 percent per year.
d) The equipment was acquired on January 1, 2024 and has a useful life of 10 years. The accountant did not record the amortization for 2027. The company uses straight line method.
e) Dividends of $10,000 were declared on December 31, 2027, and will be paid on January 25, 2028.
f) The company is subject to an income tax rate of 30%.(Hint do requirement 2 to obtain this value)

Required:

1. Prepare the transactions above at December 31, 2027. Omit closing entries as well as narratives for the journal entries.Indicate the account names, if they inc or dec and the adjusted account balances for the accounts used in a to f. **(9 marks)**

2. Prepare in good form and proper style a multi-step income statement for the year ended December 31, 2027. **(8 marks)**

3. Prepare in good form and proper style the **<u>Assets section</u>** <u>of a classified balance sheet</u> as at December 31, 2027. *A complete balance sheet is not required.* **(7 marks)**

4. Calculate the following ratios based on your answers to requirements 2 and 3, and explain the meaning of each ratio:

   – Net profit margin ratio
   – Total asset turnover ratio

   The balance of Total assets was $100,000 at December 31, 2026. **(4 marks)**

QUESTION 3 (14 marks; 25 minutes) *Merchandising transactions and receivables*

The balance sheet of COM Limited included the following accounts at January 1, 2027:

Accounts receivable	$ 225,000+	
Allowance for doubtful accounts	40,000	Credit

The following activities occurred during 2027:

Credit sales	$1,325,000
Cash sales	300,000
Sales discounts	25,000
Accounts receivable determined to be uncollectible	35,000
Recovery of amounts previously written off as uncollectible	5,000

All credit sales are billed with terms of 2/10, n/30. All customers take advantage of the cash discounts that are offered by COM Limited.

At December 31, the end of the company's fiscal year, COM Limited estimated that an amount of $50,000 may not be collectible in the future based on the aging of accounts receivable method.

Required:

1. Prepare the necessary transactions journal entries to record the transactions that occurred during 2027. Indicate account name , if it inc or dec, and the adjusted balance **(6 marks)**

2. Prepare the adjusting transaction , account to record the bad debt expense for 2027. **(2 marks)**

3. Determine the amount of **net** Accounts receivable on December 31, 2027. **(2 marks)**

4. Compute the receivable turnover ratio for the year 2027 and explain what this ratio means**. (4 marks)**

QUESTION 4 (14 marks, 25 minutes) *Preparation of adjusting entries transaction analysis*

Green Corp. operates organic food and handcraft retail stores. The following information relates to selected transactions of the company that occurred in 2027.

A. On September 1, Green paid $18,000 to renew its annual insurance policy. Insurance coverage started on that date. Green's bookkeeper recorded this transaction by debiting Insurance Expense, $18,000 and crediting Cash, $18,000.

B. On August 1, Green received $6,400 from a tenant representing payment of rent in advance for 8 months (including August). Green's bookkeeper debited Cash, $6,400 and credited Unearned Rent Revenue, $6,400.

C. On January 1, 2027, the Supplies account showed a debit balance of $4,400. During the year, miscellaneous supplies totalling $1,800 were purchased on account.

A physical count of supplies available at December 31, 2027 showed that there was $2,600 of supplies still on hand.

D. Green's bank statement for December 2027 shows a balance of $2,660 on December 31. The company's cash account had a balance of $998 on this date. The following information pertains to the bank transactions for the company.
   a. Deposits of $320, representing cash receipts from customers, did not appear on the bank statement.
   b. Outstanding cheques at December 31 totalled $480.
   c. Bank service charges for December amounted to $18.
   d. The bank collected a note receivable for the company for $1,600 plus $80 of interest revenue.
   e. A cheque for $160 from a customer was returned with the statement and marked NSF.

Green's fiscal year ends on December 31.

Required:

1. Prepare the necessary adjustments in transaction analysis related to the transactions described in items A to D above. Indicate account names, Inc or dec, and adjusted account balance. Omit narrative explanations, but show calculations. **(8 marks)**

2. Identify the amounts that Green's accountant should add to or deduct from the balance of the Cash account. **(6 marks)**