



# Midterm Exam Winter 2016, questions and answers

Financial Accounting (Concordia University)



Scan to open on Studocu

MIDTERM EXAMINATION (REGULAR)  
Winter 2016

Name: \_\_\_\_\_ ID: \_\_\_\_\_ Section: \_\_\_\_\_

**Duration: 3 hours**

**Instructions (very important):**

1. This examination paper consists of **6 pages including this page**. Please make sure your copy has all pages before commencing to write.
2. Write your FULL name (last name & first), Student ID and Section Letter on all three examination documents: computer input sheet, answer booklet and examination paper.
3. You must answer the multiple choice questions by using the **computer input sheet**; darken the letter you choose **in pencil** on the computer input sheet. Write all your answers to the other questions in the **examination answer booklet**. You may answer the questions in any order you prefer. **Only the answers on the computer input sheet and in the examination booklet will be graded.**
4. Read the questions carefully and budget your time wisely.
5. **Show all calculations** on the examination booklet, and omit narratives for journal entries. Using abbreviated account names, headings, subheadings, totals and subtotals is not recommended, and it may be subject to mark deduction.
6. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language (not electronic) dictionary are permitted.
7. **Professors and invigilators will not answer questions unless if you think there is an error in the exam.**
8. Return the exam along with the computer input sheet and answer booklet(s) when you have finished.

Question	Topic	Marks
1	Multiple Choice	22.5
2 (a & b)	Journal Entries	26
2 (c & d)	Financial Statement Preparation	26
2 (e)	Closing Entries	4.5
2 (f)	Ratio Analyses	8
3	Accounting for Inventories and Cost of Sales	13
<b>Total</b>		<b>100</b>

**I. Multiple choice Questions:** (1.5 each; Total of 22.5 marks)

- 1) For a business organized as a general partnership, which statement is true?
  - a) The owners and the business are separate legal entities.
  - b) Each partner is potentially responsible for the debts of the business.
  - c) Formation of a partnership requires getting a charter from the province of incorporation.
  - d) A partnership is not considered to be separate from its creditors.
  
- 2) Which of the following situations would cause investors to overpay for the acquisition of a company from its current owners?
  - a) Understated trade payables and overstated inventory.
  - b) Understated revenues and overstated expenses.
  - c) Understated assets and overstated expenses.
  - d) Understated assets and overstated revenues.
  
- 3) Vida Corporation gathered the following reconciling information in preparing its July bank reconciliation:

Cash balance per books, July 31	\$3,500
Deposits in transit	150
Electronic collection of account receivable	850
Bank charge for cheque printing	20
Outstanding cheques	2,000
NSF cheque	170

The adjusted cash balance per books at July 31 is

  - a) \$4,160.
  - b) \$4,010.
  - c) \$2,460.
  - d) \$2,310.
  
- 4) In 2013, G CO. reported product sales of \$717.8 million and trade receivables of \$79.4 million. In 2012, product sales were \$584.9 million and trade receivables were \$71.4 million. What was its receivables turnover ratio for 2013?
  - a) 8.19
  - b) 8.64
  - c) 9.04
  - d) 9.52
  
- 5) The WD Co. reported revenue of \$23,402 million for 2013. Their trade receivables balance was \$3,999 million in 2013 and \$3,633 million in 2012. How much cash was collected from customers?
  - a) \$23,036
  - b) \$23,306
  - c) \$23,402
  - d) \$23,768

- 6) The books of Tweed Company provided the following information:

Beginning balances:

	\$30,000
Trade receivables	
Allowances for doubtful accounts (a credit)	2,000

Transactions during the year:

	1,800,000
Sales revenue (of which 1/3 were on credit)	
Collections on trade receivables	590,000
Accounts written off as uncollectible	2,500

Past collection experience has indicated that 1% of credit sales normally is not collected. Therefore, an adjusting entry for bad debt expense should be made in the amount of which of the following?

- a) \$500.
  - b) \$2,500.
  - c) \$6,000.
  - d) \$6,500.
- 7) In applying the revenue principle to a given transaction, the most important moment or period in time is when
- a) The related cash inflows occur.
  - b) The related expenses are incurred.
  - c) Ownership is transferred or services are rendered.
  - d) The service contract is signed regarding service to be performed.
- 8) On January 1, 2015, Green Inc., started the year with a \$22,000 credit balance in its retained earnings account. During 2015, the company earned profit of \$40,000 and declared and paid dividends of \$10,000. Also, the company received cash of \$15,000 as an additional investment by its owners and \$20,000 as a collection of receivables. Therefore, the balance in retained earnings on December 31, 2015, would equal
- a) \$8,000.
  - b) \$52,000.
  - c) \$67,000.
  - d) \$87,000.

- 9) Which statement is *false* regarding the financial statements?
- a) Current assets reported in the statement of financial position are generally reported in order of their liquidity.
  - b) Distributions to owners (dividends) are reported in the statement of earnings.
  - c) Expenses on the statement of earnings are reported as incurred, not as paid.
  - d) The statement of cash flows reports the sources and uses of cash during the accounting period.
- 10) In order for accounting information to be relevant, it must
- a) Have very little cost.
  - b) Help predict future economic events or confirm prior expectations.
  - c) Be verifiable.
  - d) Be used by a lot of different organizations.
- 11) Which of the following would most likely increase net profit margin?
- a) Decreasing selling price
  - b) Increasing sales volume
  - c) Increasing expenses
  - d) Decreasing sales volume
- 12) When the auditors give an unqualified opinion, it means the company's financial statements do not conform to international financial reporting standards.
- a) True
  - b) False
- 13) The balance in Allowance for Doubtful Accounts would have a debit balance when
- a) The percentage of receivables basis is used.
  - b) An uncollectible account is later recovered.
  - c) Write-offs during the year have been less than previous estimates.
  - d) Write-offs during the year have exceeded previous estimates.
- 14) If an account is collected after having been previously written off,
- a) The allowance account should be debited.
  - b) Only the cash account needs to be credited.
  - c) Both statement of earnings and balance sheet accounts will be affected.
  - d) There will be both a debit and a credit to trade accounts receivable.
- 15) If a cheque correctly written and paid by the bank for \$521 is incorrectly recorded on the company's books for \$251, the appropriate treatment on the bank reconciliation would be to
- a) Add \$270 to the balance per bank.
  - b) Add \$270 to the balance per books.
  - c) Deduct \$270 from the balance per books.
  - d) Deduct \$270 from the balance per bank.

## II. Journal Entries and Financial Statements:

On January 1, 2015, Carly and Carl formed ABC Company, a computer sales and service company, by investing \$90,000 in cash. A total of 1,800 shares in ABC were issued and the shares were split equally among Carly and Carl. ABC also borrowed \$10,000 from the local bank; the loan is to be paid in 2018. The interest on the loan is due every 6 months. ABC had the following transactions in January 2015:

- 1) January 1: Paid \$6,000 in advance for three months' rent of space for its store.
- 2) January 1: Purchased office equipment (desks and chairs) for \$5,000 in cash.
- 3) January 1: Purchased 50 personal computers at a cost of \$1,500 each. The computers were purchased from supplier A and were paid for in cash.
- 4) January 4: Purchased from Supplier B, on account, 50 printers at a cost of \$450 each. The terms of the purchase were 2/10, n/30.
- 5) January 5: Sold 40 personal computers for \$2,550 each to a local university. The terms of the sale were 2/10, n/30.
- 6) January 14: Sold on account 39 printers for \$750 each to a copy/printing store.
- 7) January 14: The local university paid its outstanding balance in full.
- 8) January 14: Paid Supplier B the full balance due.
- 9) January 16: Issued 1,000 shares for \$50 a share. Carly and Carl purchased the shares in equal quantities and they paid for the shares in cash.
- 10) January 31: Employees had earned \$12,600 in salaries. A portion was paid on January 31, 2015 and the remaining \$3,000 is to be paid during February, 2015.
- 11) January 31: A total of \$20,000 was still outstanding in accounts receivable.
- 12) January 31: Dividends of \$2,000 were declared.
- 13) Other operating expenses of \$8,400 were incurred and paid for during January.
- 14) Depreciation expense for the period amounted to \$1,500.

### Additional Information:

- i. ABC's tax rate is 30%.
- ii. Estimated uncollectible receivables are 10% of the outstanding balance.
- iii. Interest on the loan for the month of January amounted to \$25.
- iv. ABC closes its books on a monthly basis and uses a perpetual inventory system and the FIFO inventory costing method.

**Continued** 

**Required:**

- Record all of the journal entries for the transactions that occurred in January 2015. (21 marks)
- Record any adjusting entries at January 31, 2015. (5 marks)
- Prepare the Statement of Earnings for January 2015. (10 marks)
- Prepare the Statement of Financial Position as at January 31, 2015. (16 marks)
- Record the closing entries at January 31, 2015. (4.5 marks)
- Compute the Current Ratio, Net Profit Margin and Return on Equity ratios. What do the results you arrive at tell you about ABC Company? (8 marks)

**III. Inventory (FIFO & Weighted Average Cost Method) (13 marks)**

Company Ltd, which uses a perpetual inventory system, recorded the following inventory transactions during the year 2015:

			<b>Number of</b>	
			<b>Units</b>	<b>Unit Cost</b>
October	1	Beginning Inventory	45	\$8
	25	Purchase	150	9
November	4	Purchase	65	10
	16	Sale	120	16
December	4	Purchase	50	12
	20	Sale	150	19

**Required:**

- Using the FIFO cost method, calculate the cost of sales for the period ended December 31 and ending inventory at December 31. Show your calculations. (5.5 marks)
- Using the weighted average cost method, calculate the cost of sales for the period ended December 31 and ending inventory at December 31. Show your calculations. Round your calculations to two decimal places. (6 marks)
- Company Ltd is interested in having the highest possible earnings per share. If it were to use the periodic inventory system, would the choice of FIFO or Weighted Average have an effect on earnings per share? If it would have an effect, which method would be better and why? If it wouldn't have an effect, explain why. (2.5 marks)