REview Mid term exam Feb 8 25

Financial Accounting (Concordia University)

EXAM REVIEW

Question 1. Multiple Choice (15 marks; 25 minutes)

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. Assets are usually reported on the balance sheet at:

   a. acquisition cost.
   b. market value on the balance sheet date.
   c. cost adjusted for inflation since the purchase date.
   d. expected selling price.

2. Expenses are reported on the income statement:

   a. in the period in which an order for goods or services is placed with a vendor or supplier.
   b. in the period in which goods or services provided by a vendor or supplier are used to generate revenues.
   c. in the period in which cash is paid to vendors or suppliers for goods or services that have been purchased.
   d. in any of the periods mentioned above.

3. A T-account is a simplified form of:

   a. balance sheet.
   b. customer invoice.
   c. journal entry.
   d. ledger account.

4. When a company makes a payment on a promissory note, which of the following effects is correct?

   a. decrease an asset and decrease a liability
   b. decrease an asset and increase a liability
   c. increase an asset and decrease a liability
   d. increase an asset and increase a liability

5. An example of a deferral would be:

   a. the payment of a premium on an insurance policy before the coverage period.
   b. interest owned on a loan.
   c. interest earned but not yet collected on a loan made to a franchisee.
   d. wages earned by employees but not yet paid.

6. A credit memo in a bank statement might represent:

   a. a bank service charge.
   b. a note receivable collected by the bank.
   c. a memo returning a NSF cheque.
   d. a cash withdrawal at an automated teller machine (ATM).

7. A sales transaction which includes a trade discount is normally recorded:

   a. at the gross amount, and the trade discount is recorded in an offsetting contra account.
   b. at the gross amount, and the trade discount is recorded in an expense account.
   c. at the net amount, after the trade discount has been deducted.
   d. either a or b.

8. The primary reason for establishing an allowance account (rather than writing off uncollectible accounts to bad debt expense) is that the allowance method:

   a. conforms to the matching principle.
   b. ensures that overdue accounts receivable are not overlooked.
   c. results in more accurate reporting of revenues on the income statement.
   d. simplifies the bookkeeping effort.

9. NOT on mid term Assuming inflation, which of the following relationships among inventory valuation methods is **incorrect**?

   a. FIFO reports a higher cost of ending inventory and a higher net income than LIFO.
   b. FIFO reports a higher cost of ending inventory and a higher net income than weighted average.
   c. LIFO reports a higher cost of ending inventory and a higher net income than weighted average.
   d. Weighted average reports a higher cost of ending inventory and a lower cost of goods sold than LIFO.

10. Outstanding cheques on a bank reconciliation report should be

   a. subtracted from the bank statement balance.
   b. subtracted from the book balance.
   c. added to the bank statement balance.
      e. excluded from the bank statement since there is no difference between the records of the company and those of the bank.

Question 1 (15 marks, 1.5 marks per question)

1. A 2. B 3. D 4. A 5. A 6. B

7. C 8. A 9. C 10. A

Question 3 (19 marks; 35 minutes)

This question consists of two independent parts.

Part A (11 marks)
Jim Cohen decided to open a pizza parlour near the local college campus that will operate as a corporation. The following transactions occurred during the month of January:

(1) On January 2, Jim Cohen invested $25,000 cash in exchange for common shares to start a pizza parlour business.
(2) Purchased baking equipment for $5,000 paying $3,000 in cash and the remainder due in 30 days.
(3) Purchased cooking supplies for $1,200 cash.
(4) Received a bill from Campus News for $300 for advertising in the campus newspaper during January.
(5) Collected $1,500 from customers for pizza sales.
(6) Paid salaries of $200 to student workers.
(7) Billed the Maple Leaf Football Team $100 for pizzas ordered.
(8) Paid $300 to Campus News for advertising that was previously billed in transaction (4).
(9) Paid $700 cash in dividends.
(10) Incurred $200 of utility expenses for month, payable in February.

Required:

Prepare journal entries to record the events above. Omit explanations.

Question 3 (19 marks)

Part A – 11 Marks

		Debit	Credit
1.	Cash	25,000	
	Common Shares (or Share Capital)		25,000
2.	Baking Equipment	5,000	
	Cash		3,000
	Accounts Payable		2,000
3.	Supplies Expense	1,200	
	Cash		1,200
4.	Advertising Expense	300	
	Accounts Payable		300
5.	Cash	1,500	
	Sales Revenue		1,500
6.	Salaries Expense	200	
	Cash		200
7.	Accounts Receivable	100	
	Sales Revenue		100
8.	Accounts Payable	300	
	Cash		300
9	Dividends (or Retained Earnings)	700	
	Cash		700
10.	Utilities Expense	200	

Accounts Payable		200

Part B (8 marks)

Fashion Imports (FI) is an importer of women's clothing. The company's fiscal year ends on August 31, 2024. Selected events are shown below. The company uses a **perpetual inventory system**.

1. On July 20, 2024, FI ordered 500 dresses from France for a total cost of $10,000. The dresses were received by FI on August 25, 2024. The invoice was payable in 60 days. Ocean freight related to this shipment was $500. The freight invoice was paid on September 7, 2024.

2. On August 27, 2024, half of the dresses were sold for $7,500, terms 2/10, n/30. FI paid $200 for delivering the dresses. On August 30, 2024 the customer claimed that 25 of the dresses he received on August 27 were not of the proper size and therefore returned these dresses to FI. The customer's account was credited for $750.

Required:

Prepare the required journal entries to record the transactions that occurred during the year ended August 31, 2024. Journal entries for transactions that occurred after August 31, 2024 are not required.

Part B (8 marks)

<u>August 25:</u>		
Inventory	10,000	
Accounts payable		10,000
Inventory	500	
Accounts payable		500
<u>August 27</u>:		
Accounts receivable	7,500	
Sales revenue		7,500
Cost of goods sold (10,500 /2)...	5,250	
Inventory		5,250
Delivery expense	200	
Cash	200	
<u>August 30</u>:		
Sales returns and allowances	750	
Accounts receivable		750
Inventory ($10,500 / 500) x 25)	525	
Cost of goods sold..		525