



Sample Final Exam - 2

Financial Accounting (Concordia University)



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SAMPLE FINAL EXAM 2 - DURATION: 3 HOURS

Instructions (very important):

1. This exam paper consists of **10 pages including this page**. Please make sure your copy has all pages before commencing to write.
2. Write your name (last & first), Student ID and Section on both the computer input sheet and the exam booklet.
3. For the multiple choice questions, darken the letter you choose on the computer input sheet. **Please note that all the information on the computer input sheet must be entered in PENCIL.** Write your answers to the other questions **in pen** in the **exam booklet**. You may answer the questions in any order you prefer. **Only the answers on the computer input sheet and in the exam booklet will be graded.**
4. If an answer to a question requires calculations, show the details on the exam booklet, except for multiple-choice questions which are marked as correct or incorrect, regardless of showing detailed calculations.
5. Read the questions carefully and budget your time wisely.
6. Using abbreviated account names, headings, subheadings, totals and subtotals is not recommended, and it may be subject to mark deduction.
7. This is a closed book exam. However, a silent hand-held (not graphical or programmable) calculator and one standard language (not electronic) dictionary are permitted.
8. **Professors and invigilators will not answer questions unless you think there is an error in the exam.**
9. Return the computer input sheet, exam booklet(s) and exam paper to the invigilator when you have finished.

GOOD LUCK!

Question	Topic	Total Marks
A	Multiple Choice (various topics)	40
B	Accounting for Inventory	14
C	Accounting for Current Liabilities	12
D	Accounting for Shareholders' Equity	9
E	Analysis of Financial Statements	14
F	Taxation topics	11
	Total	100

Question A Multiple choice (40 marks; 20 questions, 2 marks each; 72 minutes)

For each of the following multiple-choice questions, choose the letter that corresponds to the **best** answer and blacken the corresponding letter on the computer input sheet. **Make sure to use a pencil.**

1. The word “dividends” represents
 - A. Periodic expenses deducted from revenues to determine net earnings.
 - B. A reduction from the proprietor’s capital account in a proprietorship.
 - C. Assets that are held by the entity to finance future capital expenditures.
 - D. A distribution of assets to shareholders as a result of profitable operations.
 - E. None of the above statements.

2. Goodwill is determined for accounting purposes as:
 - A. the financial effect of activities undertaken by companies that are for the best interest of society, even if they have a detrimental effect on the company's short-run financial results.
 - B. the amount of contributions that a corporation makes to charitable organizations.
 - C. the value of a company's reputation for such things as service, quality, and product reliability.
 - D. the excess of the cost of an acquired company over the fair market value of its net assets (identifiable individual assets minus liabilities).

3. If a company has a current ratio of 1.2, what respective effects will the borrowing of cash on a short-term basis and the collection of accounts receivable have on the ratio?

	<u>Short-term Borrowing</u>	<u>Collection of Receivables</u>
A.	Increase	No effect
B.	Increase	Increase
C.	Decrease	No effect
D.	Decrease	Decrease

4. The capital structure of a company is
 - A. its property, plant and equipment.
 - B. the mix of debt and equity to finance a company.
 - C. the composition of its shareholders’ equity.
 - D. the different types of debt that the company has outstanding.

5. Which one of the following would normally be considered a disadvantage of the corporate form of organization?

A. Limited liability of shareholders	B. Separate legal existence
C. Continuous life	D. Government regulation

6. Provo Co. buys a piece of equipment with a selling price of \$9,000. The dealer grants the company a reduction of 15% on the list price. The company made the following additional expenditures: sales taxes that are refundable, \$1,350; insurance on the equipment for one year, \$250; and a delivery charge, \$300, paid by Provo. At what cost should Provo record the equipment on its books?

A. \$7,950	B. \$8,797.5	C. \$8,200	D. \$7,650	E. None of the other amounts
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7. On January 1, 2022, KJK Company had \$12,000 in assets, \$3,000 in liabilities, \$4,000 in share capital and \$2,000 in other components of equity. During 2022, the Company had revenues of \$10,000, expenses of \$7,000, and distributed \$1,000 in dividends. The amount of retained earnings that would appear on the statement of financial position at December 31, 2022 would be:

- A. \$6,000 B. \$5,000 C. \$7,000 D. \$8,000 E. None of the other amounts.

8. The following totals for the month of April were taken from the payroll register of Minsk Company.

Salaries	\$12,000
CPP withheld	550
Income taxes withheld	2,500
Medical insurance deductions	450
EI withheld	196
Union dues withheld	216

The recording of the monthly payroll on April 30 would include

- A. an increase to Salaries Expense by \$12,000.
 B. an increase to Salaries Payable by \$12,000.
 C. a decrease to Salaries Payable by \$8,088.
 D. an increase to Salaries Expense by \$8,088.
9. Lucky Dubois Inc. operates in a province where customers pay a federal sales tax of 5% but do not pay a provincial sales tax. If a customer purchased merchandise for \$300 cash plus sales tax, then the effects of this sale on Lucky Dubois's accounts should include
- A. an increase to Cash for \$300.
 B. an increase to Sales Tax Payable for \$15.
 C. an increase to Sales Revenue for \$315.
 D. an increase to Sales Tax Expense for \$15.
10. While preparing adjustments to various accounts at the end of its fiscal year ending December 31, 2022, Cheung Company neglected to adjust the account Deferred Rent Revenue for the amount of rental fees earned in 2022. The error was discovered and corrected on January 31, 2023. What effect does this error have on the following:

	<u>Net Earnings</u> <u>for 2022</u>	<u>Assets</u> <u>Dec. 31, 2022</u>	<u>Liabilities</u> <u>Dec. 31, 2022</u>
A.	Understated	Overstated	Overstated
B.	Overstated	No Effect	Overstated
C.	Understated	No Effect	Overstated
D.	Understated	No Effect	No Effect

11. Which of the following statements best reflects the meaning of the debt-to-equity ratio?

- A. It measures the company's ability to secure new financing.
 B. It shows the relative amounts of financing provided by creditors and owners.
 C. It provides an indicator of the company's ability to pay interest in the next period.
 D. It reveals the company's ability to pay current debts from money in equity.

12. Which of the following tasks is not commonly performed by external auditors?
- A. External auditors examine the transactions of a company during the accounting period, but the number of transactions examined depends on the strength or weakness of the internal control system.
 - B. External auditors evaluate the system of internal controls.
 - C. External auditors are expected to provide an opinion on whether the company's transactions are reported in accordance with International Financial Reporting Standards.
 - D. External auditors usually advise the company on various accounting and tax issues.
 - E. External auditors prepare the financial statements of companies.

Use the information below to answer questions 13 to 15.

K.C. Rybak decided to expand his business by buying a franchise from "Bike Collective," a business specializing in bike sales and repairs. This business was incorporated and commenced operations on July 1, 2023 as K.C. Bike Collective Inc.

On August 1, 2023, K.C. Bike Collective Inc. bought a piece of land and an abandoned warehouse on the land for \$915,000. The company paid \$75,000 cash and signed a note for the balance. A real estate broker estimated the market values of the land and warehouse to equal \$350,000 and \$700,000, respectively.

Prior to buying the warehouse the company determined that \$105,000 of renovations would have to be done in order to make it usable for the operations of the business. The renovations were completed on October 1, 2023 and the amount was paid in cash.

The company's fiscal year ends on December 31.

13. The cost of land that should be recorded in the account Land as a result of the above details should be
- A. \$305,000. B. \$350,000. C. \$340,000. D. \$610,000 E. \$715,000.
14. The cost of the warehouse that should be recorded in the account Building as a result of the above details should be
- A. \$700,000.
B. \$805,000.
C. \$610,000.
D. \$715,000.
E. None of the above amounts.
15. Assume the warehouse has a useful life of 25 years, a residual value of \$65,000, and is depreciated on a straight-line basis. The warehouse was not ready for use until the renovations were completed. Which of the following statements is incorrect?
- A. The annual depreciation expense is \$26,000.
B. The adjustment to record depreciation expense for fiscal year 2023 should equal \$6,500.
C. The net realizable value of the Building at December 31, 2023 should be \$708,500.
D. The balance of the account Accumulated Depreciation – Building should be \$32,500 at December 31, 2023.

16. Miga Company and Porter Company both bought a new delivery truck a few years ago on January 1. Both companies paid exactly the same cost, \$40,000, for their respective vehicles. As of December 31 of the current year, the carrying value of Miga's truck was less than Porter Company's carrying value for the same vehicle. Which of the following is an acceptable explanation for the difference in carrying value?
- A. Miga Company estimated a lower residual value, but both estimated the same useful life and both used straight-line depreciation.
 - B. Both companies used straight-line depreciation, but Miga Company used a longer estimated life.
 - C. Because IFRS specifies rigid guidelines regarding the calculation of depreciation, this situation is not possible.
 - D. Miga Company is using the straight-line method of depreciation, and Porter Company is using a different method of depreciation.
17. When recording depreciation, which of the following statements is true?
- A. Total assets increase and shareholders' equity increases.
 - B. Total assets decrease and total liabilities increase.
 - C. Total assets decrease and shareholders' equity increases.
 - D. Both total assets and shareholders' equity decrease.
 - E. None of the other statements are true.
18. Which of the following transactions would usually cause accounts payable turnover to decrease?
- A. Collection of cash from a customer.
 - B. Purchase of equipment on credit.
 - C. Payment of cash to a supplier for merchandise purchased through cash.
 - D. Purchase of merchandise on credit.
19. Which of the following ratios is used to analyze liquidity?
- A. Accounts payable turnover ratio.
 - B. Debt-to-equity ratio.
 - C. Current ratio.
 - D. Cash coverage ratio.
 - E. Both A and C.
20. Which of the following statements regarding the lower of cost and net realizable value (LC&NRV) rule for inventory are true?
- 1. The LC&NRV rule is a departure from the cost principle.
 - 2. When the net realizable value of inventory drops below the cost shown in the financial records, net earnings is reduced.
 - 3. When the net realizable value of inventory drops below the cost shown in the financial records, total assets are reduced.
- A. Only (1) is true.
 - B. Only (2) is true.
 - C. Only (3) is true.
 - D. Both (2) and (3) are true.
 - E. All three statements are true.

Question B (14 marks, 25 minutes)**Accounting for Inventory**

Joung Inc. sells item A as part of its product line. Simplified information about the beginning inventory, purchases, and sales for item A for the year 2023 is given in the following table.

Year 2023 Date	Purchases		Sales	
	Number of Units	Unit Cost	Number of Units	Sales Price
January 1 (beginning inventory)	3,000	\$1.40		
a) March 5	5,000	\$1.60		
b) June 21			7,000	\$4.50
c) September 30	2,500	\$1.98		
d) December 17			2,000	\$4.80

All purchase and sale transactions are on account. Joung uses a perpetual inventory system and the weighted-average cost method. Round your calculation of the average cost to three decimal places.

Required:

1. Compute the cost of sales for June 21, 2023. (3 marks)
2. Compute the cost of ending inventory on December 31, 2023, the end of Joung's fiscal year. (2.5 marks)
3. Identify the accounts that were affected by the transactions that occurred on March 5 and June 21, 2023. Specify the amount and direction of the change in each of these accounts. (6.5 marks)
4. Assume that the company's quick ratio is 0.65 on December 31, 2023. Will the quick ratio increase, decrease, or remain unchanged if the unit cost for the purchase on December 17 was \$1.95 instead of \$1.98? Explain. (2 marks)

Question C (12 marks; 22 minutes)***Accounting for Liabilities***

Modern Furniture Ltd. is local retailer of home furnishings. The company reported the following items in its statement of financial position dated October 31, 2023 (amounts in thousands):

	October 31, 2023	October 31, 2022
Dividends payable	\$4,424	\$ 3,844
Deferred warranty plan revenue	9,971	10,299
Notes payable	35,800	24,600

The company's annual report included the following information:

1. Warranty revenues are deferred and taken into income on a straight-line basis over the life of the warranty period. Warranty revenues for fiscal year 2023 are \$9,818 compared to \$9,450 in 2022.
2. On July 31, 2023, the Company increased its borrowings from Provincial Bank by signing notes payable totalling \$11,200. Interest on these notes, at a rate of 7 percent is payable annually on July 31, starting in 2024. The other notes payable have been outstanding since January 1, 2020, and are due on December 31, 2025. Interest on these notes is payable annually on December 31 at an average annual interest rate of 5 percent.

Required:

1. Determine the amount that the Company received from customers to purchase deferred warranty plans during fiscal year 2023, and identify the accounts affected by the transactions related to the deferred warranty plans, including the direction of the changes in the account balances. (4.5 marks)
2. The company's board of directors declared dividends of \$14,725 during 2023. Record the effects of the declaration and subsequent payment of dividends on the relevant accounts using the accounting equation. (4 marks)
3. Determine the balance of the account Interest Payable on October 31, 2023. (3.5 marks)

Question D (9 marks; 16 minutes)***Accounting for Equity Transactions***

MLW Limited was incorporated on January 1, 2023 with the following share capital:

Common shares, no par value, unlimited number of shares authorized

The following events occurred during the year 2023:

- Jan. 2 Issued 50,000 common shares for cash, \$100,000.
- Jan. 2 Issued 5,000 common shares to a supplier in exchange for used equipment. The original cost of the equipment to the supplier was \$250,000 and its accumulated depreciation was \$150,000 up to the date of sale. The market value of this equipment was \$125,000 on that date.
- Dec. 31 Declared a cash dividend of \$0.30 per common share outstanding, payable on January 15, 2024.
- The company reported net earnings of \$40,000 for the year 2023.

Required:

1. Record the effects of the transactions on the relevant accounts using the accounting equation. (4.5 marks)
2. Prepare the shareholders' equity section of MLW's statement of financial position as at December 31, 2022. (3.5 marks)
3. Calculate the Company's earnings per share for 2023. (1 mark)

Question E (14 marks; 25 minutes) *Analysis of Financial Statements*

LFL Group is a Canadian retail conglomerate specializing in major home furnishings, mattresses, appliances and electronics. Selected information from LFL's statements of financial position at December 31, 2022 and 2021 (with comparative amounts for 2020) and condensed statements of earnings for the years 2022 and 2021 are shown below.

LFL GROUP			
Excerpts from Statements of Financial Position at December 31			
(in millions of dollars)			
	2022	2021	2020
Assets			
Cash and cash equivalents	\$ 382	\$ 369	
Short-term investments	108	124	
Accounts receivable, net	160	131	\$ 141
Inventories, at cost	396	332	334
Total current assets	1,075	982	
Property, plant, and equipment	658	714	721
Total assets	2,453	2,419	2,130
Liabilities			
Accounts payable	544	305	257
Total current liabilities	1,200	821	
Total liabilities	1,662	1,403	
Shareholders' Equity	791	1,016	916

LFL GROUP
Statements of Earnings
For the Years Ended Dec. 31, 2022, and Dec. 31, 2021
(in millions of dollars)

	2022	2021
Revenue	\$2,513	\$2,220
Cost of sales	<u>1,404</u>	<u>1,236</u>
Gross profit	1,109	984
Selling, general and administrative expenses	<u>819</u>	<u>751</u>
Earnings from operations	290	233
Finance costs	(21)	(22)
Finance income	<u>8</u>	<u>—</u>
Earnings before income taxes	277	211
Income tax expense	<u>69</u>	<u>47</u>
Net earnings	<u>\$ 208</u>	<u>\$ 164</u>
Earnings per share	\$2.67	\$2.05

Additional information:

	2022	2021
Cash provided by operating activities	\$ 314	\$ 511
Cash provided by (used in) investing activities	16	(43)
Cash provided by (used in) financing activities	(316)	(189)
Interest paid	20	24
Income taxes paid	55	46
Market price per common share at December 31	25.23	20.63

Required (Round your calculations to three decimal places):

1. Calculate the quick ratio for 2022 and explain its significance in terms of LFL's liquidity position at December 31, 2022. (3 marks)
2. Assume that you are interested in buying common shares in LFL.
 - a. Identify three ratios that would be most useful for your investment decision, and explain why you chose these ratios. (3 marks)
 - b. Calculate the ratios that you identified above for each of the years 2022 and 2021. (6 marks)
 - c. Would you purchase shares in LFL based on the calculated ratios? Explain. (2 marks)

Question F (11 marks; 20 minutes) *Taxable Topics*

The following statement of earnings and notes are part of the financial statements for Freidoun Inc. for the year ending December 31, 2022. The company's shares are owned by Freidoun Mamdou, a Canadian resident.

Freidoun Inc.	
Statement of Earnings	
For the Year Ended December 31, 2022	
Sales (note b)	\$250,000
Cost of sales	<u>150,000</u>
Gross profit	<u>100,000</u>
Operating expenses:	
Salaries	54,000
Management bonuses (note c)	5,000
Depreciation (note d)	4,600
Advertising expenses (note e)	5,500
Legal fees	2,500
Office expenses	3,000
Entertainment expenses (note f)	2,400
Bad debts	<u>3,600</u>
Total operating expenses	<u>60,600</u>
Income from operations	39,400
Gain on sale of investment	<u>2,600</u>
Income before income taxes	42,000
Provision for income taxes	<u>6,300</u>
Net Income	<u>\$ 35,700</u>

Notes:

- a) All of the company's sales had the same cost per unit.
- b) A sale for \$6,000 was recorded on December 31, 2022. The terms of the sale are F.O.B. destination point and the goods were delivered to the customer on January 4, 2023.
- c) These bonuses will only be paid in August 2023.
- d) Capital cost allowance (CCA) for tax purposes has been correctly calculated as \$6,000.
- e) The reported amount includes a payment of \$600 for a business suit for the Company president.
- f) These were for entertaining clients and suppliers.

Required:

Prepare a statement showing the adjustments to net income that are needed to determine taxable income for Freidoun Inc. for fiscal year 2022.