**CONCORDIA UNIVERSITY** **FINANCIAL ACCOUNTING**
**DEPARTMENT OF ACCOUNTANCY** **COMM 217 ALL SECTIONS**

**EXAM 2 - DURATION: 2 HOURS**
**FALL 2020**

**Instructions (very important)**:

1. All questions must be answered in a word document (.doc or .docx). You may answer the questions in any order you prefer, make sure to identify the question you are answering. You should name the file as follows: Familyname_Firstname_StudentID#.

2. Write your FULL name (last name & first) and Student ID on top of the first page of the document carrying your answers.

3. If an answer to a question requires calculations, show the details to earn the allocated marks. Omit narrative explanations for journal entries.

4. Abbreviating any names (for example: account names, headings, subheadings, totals, subtotals, etc.) may be subject to mark deduction.

5. 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.

**GOOD LUCK!**

| **Question** | **Topic** | **Total Marks** |
|---|---|---|
| 1 | Multiple-choice questions | 10 |
| 2 | Accounting for doubtful accounts | 6 |
| 3 | Accounting for inventory and cost of sales | 17 |
| 4 | Long-lived assets | 14 |
| 5 | Journal entries | 15 |
| | **Total** | **62** |

**Question 1: Multiple-Choice Questions (2 marks each; 10 marks in total)**

For each of the following multiple choice question, choose the letter that corresponds to the **best** answer.

1. A company received notice that a customer that owes $100 has gone bankrupt and will not make any future payments. Assuming you the company the allowance method for doubtful accounts, the journal entry that should be made is:

| | **Debit** | **Credit** |
|---|---|---|
| A. | Allowance for Doubtful Accounts | Bad Debts Expense |
| B. | Allowance for Doubtful Accounts | Accounts Receivable |
| C. | Bad Debts Expense | Allowance for Doubtful Accounts |
| D. | Bad Debts Expense | Accounts Receivable |

2. If a company fails to record bad debts expense at year end, then

   A. the balance of the allowance for doubtful accounts will be overstated.
   B. the expenses for the year will be overstated.
   C. the net realizable value of the accounts receivable will be overstated.
   D. the net earnings for the year will be understated.

3. Which of the following items will increase the cost of purchased goods?

   A. Purchase returns and allowances granted by the seller
   B. Purchase discounts taken by the purchaser
   C. Freight charges paid by the seller
   D. Freight charges paid by the purchaser

4. Outstanding cheques on a bank reconciliation statement should be

   A. added to the unadjusted bank balance.
   B. subtracted from the unadjusted book balance.
   C. subtracted from the unadjusted bank balance.
   D. excluded from the bank reconciliation statement since there is no difference between the records of the company and the bank.

5. On May 31, 2020, the bank's records indicated that CIC Inc. has $12,956.73 in its chequing account. CIC was aware of three outstanding cheques for a total of $2,112.19. During May 2020, the bank rejected two deposited cheques from customers totalling $654.19 because of insufficient funds. The bank also charged CIC $12.00 in service fees. CIC had not yet received notice about the bad cheques, but it had recorded the service fees. Prior to adjusting CIC's Cash account on May 31, 2020, its balance would have been:

   A. $14,402.73. B. $15,711.11. C. $11,498.73. D. $10,202.35.

**Question 2: Accounting for doubtful accounts (6 marks)**

S & R Company uses the aging of accounts receivable approach to estimate bad debt expense. On December 31, 2020, an analysis of accounts receivable revealed the following:

| **Schedule of Accounts Receivable by Age** | | |
|---|---|---|
| **Accounts Receivable at December 31, 2020** | **Age of Accounts Receivable** | **Expected Percentage Uncollectible** |
| $140,000 | Not yet due | 0.75% |
| 60,000 | 1-30 days past due | 4% |
| 19,000 | 31-60 days past due | 10% |
| 5,000 | 61-90 days past due | 60% |
| 7,000 | Over 90 days past due | 90% |

**Required**:

a) Calculate the amount of allowance for doubtful accounts that should be reported on the statement of financial position at December 31, 2020. **(1 mark)**

b) Prepare the appropriate general journal entry to record bad debts expense on December 31, 2020. Assume that the balance of Allowance for Doubtful Accounts on January 1, 2020 was $44,000 (credit balance) and accounts receivable written off during the year totalled $49,200. **(2.5 marks)**

c) Show how accounts receivable will appear on the statement of financial position at December 31, 2020. **(2.5 marks)**

**Question 3: Accounting for inventory and cost of sales (17 marks)**

Dora Corporation sells item A as part of its product line. Simplified information about the beginning inventory, purchases, and sales for item A for the year 2019 is given in the following table. Dora Corporation uses a perpetual inventory system and the weighted-average cost method.

| | Purchases | | Sales | |
|---|---|---|---|---|
| Date | Number of Units | Unit Cost | Number of Units | Sales Price |
| January 1 (beginning inventory) | 5,000 | $1.40 | | |
| (a) March 5 | 5,000 | $1.60 | | |
| (b) June 21 | | | 8,000 | $4.50 |
| (c) September 30 | 2,500 | $2.00 | | |
| (d) December 17 | | | 2,500 | $4.80 |

***Required:***

a) Compute the cost of ending inventory, the cost of sales, and the gross profit percentage for 2019. Round your answers to the second decimal. The weighted-average cost per unit after the purchase of March 5 was already calculated as $1.50. **(7 marks)**

b) Prepare journal entries to record the sale transaction (d), assuming that sales are made on account. **(3 marks)**

c) Calculate the inventory turnover ratio and interpret your result. **(2 marks)**

d) Would the gross profit be higher, lower or the same if Dora Corporation used a periodic inventory system and the First-in First-out (FIFO) method instead of a perpetual inventory system and the weighted-average cost method? Explain. *Calculations are not required*. **(2 marks)**

e) Assume that the personnel in charge of the physical inventory count at year end counted 2,500 units of item A by mistake instead of the quantity that you calculated in requirement 2. How will this error affect the cost of sales, income tax expense for the year 2019? Show the amount of the understatement or overstatement for for these two items. Assume that the company is subject to an income tax rate of 30 percent. **(3 marks)**

**Question 4: Long-lived Assets (14 marks)**

Following its business plan to expand to North America, Walton Corporation decided to open its first branch in Toronto. On January 1, 2019, Walton Corporation made the purchase of land, building, and furniture and fixtures to begin its operations. The following expenses were incurred:

- Basket purchase of land, building, furniture and fixtures: $313,000
- Legal fees: $7,000.
- Delivery of furniture and fixtures incurred by supplier: $2,500
- Additional fees to prepare the building for usage: $2,000
- Financing cost to finance the purchase: $6,000

**Additional information**

- Appraised values at the time of the purchase were: land $70,000; building, $227,500; and furniture and fixtures, $52,500.
- The fiscal year of Walton Corporation ends on December 31. Depreciation of the building, furniture, and fixtures started on January 1, 2019.

**Required**:

a) Determine the amounts that should be recorded for the land, building, and furniture and fixtures as at January 1, 2019. **(5 marks)**

b) The building had an estimated useful life of 20 years and residual value of $30,000. Prepare the journal entry to record depreciation for the building in 2019 using the straight-line method. **(2 marks)**

c) Furniture and fixtures are expected to have useful lives of 5 years and a residual value of 4,000. Calculate the amount of depreciation on the furniture and fixtures for 2020, assuming that Walton uses the double-declining balance method of depreciation for such assets (round to the nearest dollar)? **(2 marks)**

d) Assume that the carrying amount (book value) of the furniture and fixtures is $6,221 at December 31, 2022. Prepare the journal entry to record the depreciation for 2023. **(3 marks)**

e) Walton sold the furniture and fixtures on January 1, 2024 for $5,000 in cash, record any necessary journal entries related to this transaction. **(2 marks)**

**Question 5: Journal Entries (15 marks)**

*Note: The transaction on December 27 and the last transaction on December 31 relate to Chapter 9, which was covered on Exam 2 of Fall 2020.*

Monmouth Limited has a December 31 year-end. Below are select transactions from Monmouth's December 2019 activities.

**Required:**
Record the necessary journal entries for each of the following transactions. If a transaction does not require a journal entry, write "no journal entry needed" as your answer and provide an explanation. Assume that the Company uses a perpetual inventory system and that all transactions that occurred before December were properly recorded. Identify the transactions by their dates.

<u>December transactions</u>:

December 1: Bought $20,000 of inventory on credit, terms 2/10, n/30 FOB shipping point. Shipping and delivery occurred the same day and the shipping costs of $2,000 were paid in cash by the responsible party to the shipping company.

December 1: Borrowed $40,000 from the local bank due in 12 months. The loan carries a 4.5% interest rate. Interest is payable at the end of each month.

December 3: Sold goods on account for $30,000. The customer had paid half the amount in advance in November. The terms of the sale were 2/10, n/30 FOB Shipping point. Shipping and delivery occurred the same day and the shipping costs of $1,000 were paid in cash by the responsible party to the shipping company. Monmouth prices its products to have a 35% gross profit percentage on all sales.

December 9: Paid the amount due for the inventory purchase on December 1 (above).

December 27: Received a lawyer's letter stating that a customer is suing the company for failure to clear the snow away from the front of the business premises. The customer fell and was injured as a result. Monmouth's lawyer says that it is likely that the company will be required to pay but she is unable to reasonably determine the amount of the loss.

December 31: Paid the local bank interest on the loan from December 1 (above).

December 31: Paid the monthly payroll amounts to employees. The gross payroll was $16,200. Amounts withheld from the employees' cheques were as follows:

Canada pension plan contributions $1,200
Employment insurance contributions $250
Employees' income taxes $2,800