

**EXAM 2 - DURATION: 2.5 HOURS
WINTER 2021**

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, except for multiple choice questions which are marked as correct or incorrect, regardless of showing detailed calculations. 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 or digital dictionary are permitted.

GOOD LUCK!

Exam Breakdown:

| Question | Topic | Total Marks |
|-----------------|--|--------------------|
| A | Accounting for Sales Revenue and Receivables | 10 |
| B | Accounting for Selected Transactions | 8 |
| C | Multiple-Choice Questions | 72 |
| | Total | 90 |

Question A: Accounting for Sales Revenue and Receivables (10 marks; 16 minutes)

Office Solutions, Inc. sells copiers, printers, laptops, tablets and other types of office equipment. During January 2021, the following transactions occurred.

- January 10 Purchased five printers on account from Tsang Inc. at a cost of \$200 each. The credit terms are 1/10, n/30.
- 17 Sold four printers on account to Mytko & Sons, Ltd. for \$400 per printer. The credit terms are 2/10, n/30.
- 19 Paid the amount due to Tsang Inc.
- 21 One of the printers sold to Mytko & Sons Ltd. was found to be defective and was returned to Office Solutions for full credit.
- 23 Office Solutions returned the defective printer to Tsang Inc. and was promised a refund for the amount paid.
- 26 Received the amount due from Mytko & Sons Ltd.

Required:

1. Prepare the journal entries to record the transactions that occurred on January 17, 19, 21 and 26 in the accounting records of Office Solutions. The company uses a perpetual inventory system. Omit narrative explanations. **(8.5 marks)**
2. Assume that Office Solutions Inc. did not have enough cash to pay the amount due to Tsang Inc. on January 19, but could have borrowed the required amount from the local bank at an annual interest rate of 15%. Should the company borrow the required amount from the bank and pay it to Tsang Inc. on January 19? Explain. **(1.5 marks)**

Question B: Accounting for Selected Transactions (8 marks; 14 minutes)

Note: This question relates to material covered in Chapter 9, which was part of Exam 2 in Winter 2021.

Robert Inc. is a retail company selling technology products online. Robert's fiscal year end is December 31. Below is selected information about Robert's operations during 2021.

1. During March, Robert sold 200 units of one of its technology products at \$200 each, subject to provincial sales tax of 8% of the sales price, and goods and services tax of 5% of the sales price. Customers paid for their purchases using either MasterCard or Visa, that both charge Robert Inc. a fee of 2% for their service.

Each unit carries a one-year warranty. Robert promises to repair the unit should it become defective. The estimated cost to the company to honour the warranty is \$30 per unit and experience has shown that approximately 7% of all units may have to be repaired during the warranty period.

Required:

Prepare journal entries to record (1) sales during the first quarter of 2021 and (2) the associated warranty expense. **(5 marks)**

2. The payroll register for February 2021 showed the following totals. Salaries were paid on February 28.

| | |
|--------------------------------------|----------|
| Gross salaries | \$19,500 |
| Income taxes withheld | 4,200 |
| Quebec Pension Plan (QPP) withheld | 975 |
| Private medical insurance deductions | 675 |
| Employment insurance (EI) withheld | 448 |
| Union dues withheld | 324 |

Required:

- a. How much cash did Robert Inc. pay to the employees on February 28? **(1 mark)**
- b. What is the total compensation expense that should be recorded on Robert Inc.'s books for February 28, assuming that the employer is required to pay a matching amount of the QPP deductions and 1.40 times the EI deductions? **(2 marks)**

Question C: Multiple Choice Questions: (72 marks; 36 questions, 2 marks each; 120 minutes)

Use the following information to answers questions 1 to 8:

Office Value Inc. is an office supply retailer in Montreal. The company uses a perpetual inventory system and has a December 31 year end. The following schedule relates to the company's inventory for the month of May 2020:

| | | No. of Units | Total Cost | Total Sales |
|-------|---------------------|---------------------|-------------------|--------------------|
| May 1 | Beginning inventory | 150 | \$ 75,000 | |
| 5 | Sale | 100 | | \$ 65,000 |
| 9 | Purchase | 50 | 27,500 | |
| 13 | Purchase | 200 | 120,000 | |
| 24 | Sale | 200 | | 140,000 |
| 27 | Sale | 50 | | 40,000 |
| 30 | Purchase | 75 | 49,500 | |

1. How many units of inventory are on-hand at May 31, 2020?
 - a) 825
 - b) 675
 - c) 375
 - d) 125
2. Using the FIFO method, the cost of sales for the month of May 2020 is equal to:
 - a) \$192,500
 - b) \$193,750
 - c) \$175,000
 - d) \$245,000
3. Under the FIFO method, the cost of ending inventory is equal to:
 - a) \$78,250
 - b) \$79,500
 - c) \$75,000
 - d) \$27,000
4. Using the Weighted-average cost method, the cost of sales for the month of May 2020 is equal to:
 - a) \$193,750
 - b) \$192,500
 - c) \$200,421
 - d) \$245,000

5. Assume for this question only that the periodic inventory system is used and the weighted-average cost method. What would be the cost of ending inventory?
 - a) \$78,250
 - b) \$79,500
 - c) \$68,750
 - d) \$71,579

6. The gross profit (loss) on the May 24 sale would be equal to:
 - a) \$27,500 using the FIFO method; \$25,000 using the Weighted-average cost method
 - b) \$20,000 using the FIFO method; \$20,000 using the Weighted-average cost method
 - c) \$112,500 using the FIFO method; \$115,000 using the Weighted-average cost method
 - d) \$37,500 using the FIFO method; \$36,250 using the Weighted-average cost method

7. Office Value Inc.'s CEO has a meeting with its shareholders in the coming weeks who favour higher asset values over net earnings. Which of the following would best serve the company's shareholder needs?
 - a) A periodic inventory system
 - b) The weighted-average cost method
 - c) The FIFO cost method
 - d) A perpetual inventory system

8. Which of the following is NOT true?
 - a) 325 units were purchased in May 2020
 - b) The company started the month with more units than it did end with
 - c) There were \$245,000 in total sales for the month of May
 - d) The gross profit percentage for the month of May is lower using the FIFO method

Questions 9 – 11 are based on the following information:

The bookkeeper of the Pragma Corp. has asked you to assist him with the preparation of information about the company's accounts receivable for presentation in the financial statements at December 31, 2020, the end of the company's fiscal year. The following details were extracted from the company's files.

| | Debit | Credit |
|--|--------------|---------------|
| Accounts Receivable, January 1, 2020 | \$250,000 | |
| Allowance for Doubtful Accounts, January 1, 2020 | | \$17,500 |

Total sales for 2020 are \$650,000, of which \$150,000 were cash sales and the remainder on account. During 2020, the company collected \$400,000 in cash from customers that purchased merchandise on account, and a total of \$20,000 of accounts receivable was considered uncollectible.

Pragma uses the aging of accounts receivable method to estimate the net amount of accounts receivable at year end. Assume that Pragma treats all of its accounts receivable as having the same age and it estimates that 6% of the ending balance of its accounts receivable may not be collected in the future.

9. The balance of Accounts Receivable at December 31, 2020 equals:
 - a) \$350,000
 - b) \$330,000
 - c) \$480,000
 - d) \$80,000
10. The journal entry to record the write off of accounts receivable during the year 2020 should include
 - a) A credit to Accounts Receivable for \$21,000.
 - b) A debit to Accounts Receivable for \$20,000.
 - c) A credit to Accounts Receivable for \$20,000.
 - d) A Debit to Allowance for Doubtful Accounts for \$19,800.
11. Assume that the balance of Accounts Receivable at December 31, 2020, is \$400,000 regardless of your answer to question 9. The journal entry to record bad debt expense for the year 2020 should include
 - a) A credit to Accounts Receivable for \$26,500.
 - b) A credit to Allowance for Doubtful Accounts for \$24,000.
 - c) A debit to Bad Debt Expense for \$21,500.
 - d) A debit to Bad Debt Expense for \$26,500.
 - e) A debit to Bad Debt Expense for \$20,000.

Use the following information to answer questions 12 – 14:

The bank statement for Sysko Ltd. indicates a balance of \$2,660 on January 31. The company's Cash in Bank 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 of January 31, did not appear on the bank statement.
 - b. Outstanding cheques totalled \$480.
 - c. Bank service charges for January 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.
12. The preparation of a bank reconciliation requires that the following adjustments to the cash balance on the bank statement.

- a) Addition of the deposit in transit and deduction of the outstanding cheques.
- b) Addition of the outstanding cheques and deduction of the deposit in transit.
- c) Addition of the note and interest collected by the bank and deduction of the cheque marked NSF.
- d) Deduction of the outstanding cheques and the cheque marked NSF.

13. The balance of the adjusted cash balance per books should be:

- a) \$2,980.
- b) \$2,500.
- c) \$2,820.
- d) \$2,660.

14. Which of the following should **not** be included in the journal entries prepared by Sysko at January 31 due to the bank reconciliation?

- a) A credit to interest revenue for \$80 and a credit of cash for \$80.
- b) A debit to accounts receivable of \$160 and a credit of cash for \$160.
- c) A debit to bank service charge for \$18 and a credit of cash for \$18.
- d) A debit to outstanding cheques for \$480 and a credit of cash for \$480.

Questions 15 to 18 relate to the following information:

You have been provided the following selected account balances from Atwater Inc. for its 2020 fiscal-year. The Chief Accountant has requested your assistance in calculating and interpreting ratios.

| Account | January 1, 2020 | December 31, 2020 |
|-------------------------------------|-----------------|-------------------|
| Accounts Receivable | \$426,000 | \$536,000 |
| Accumulated Depreciation - Building | (57,500) | (63,250) |
| Allowance for Doubtful Accounts | (72,000) | (89,000) |
| Building | 575,000 | 575,000 |
| Cash | 41,000 | 87,000 |
| Cost of Sales | - | 271,000 |
| Credit Card Discounts | - | (55,000) |
| Inventory | 188,000 | 257,000 |
| Land | 125,000 | 125,000 |
| Sales Discounts | - | (74,000) |
| Sales Revenue | - | 740,000 |
| Goodwill | - | 85,000 |

15. The inventory turnover ratio is equal to:

- a) 1.22
- b) 1.05
- c) 0.61
- d) 0.82

16. The fixed asset turnover ratio is equal to:
- a) 0.87
 - b) 1.90
 - c) 1.06
 - d) 0.96
17. The receivables turnover ratio is equal to:
- a) 1.53
 - b) 1.85
 - c) 1.66
 - d) 1.27
18. Which of the following is **NOT** true?
- a) The receivables turnover ratio would be useful for management to determine an adequate sales discount policy.
 - b) A sushi restaurant would likely have a high inventory turnover ratio.
 - c) Intangible assets and goodwill are excluded from the calculation of the fixed asset turnover ratio.
 - d) None of the listed answers

Questions 19 to 36 are independent of each other.

Note: Questions 34, 35 and 36 relate to Chapter 9.

19. Your company previously averaged about 20% of its total accounts receivable in the "over 90 days past due" category and now has 35% in this category. All else equal, using the aging of accounts receivable method, the amount of the bad debt adjustment will:
- a) fall, increasing the ending balance of the allowance account.
 - b) rise, increasing the ending balance of the allowance account.
 - c) fall, decreasing the ending balance of the allowance account.
 - d) rise, increasing the ending balance of accounts receivable.
20. An increasing balance in the inventory account and an increasing inventory turnover ratio would imply that the inventory build up is occurring because:
- a) goods are not selling as fast as anticipated.
 - b) the company is expecting to sell more in the future.
 - c) goods are selling but it is taking longer to collect from customers.
 - d) goods cannot be shipped fast enough.
21. A depreciable asset with a cost of \$42,500 has a residual value of \$2,500 and a useful life of 8 years. Total estimated units of output are 80,000. In year 1, 5,200 units were produced. Under the straight-line method and the units-of-production (activity) method the depreciation expense for the year 1 would be

| | | |
|--|----------------------|--------------------------|
| | <u>Straight-line</u> | <u>Units-of-activity</u> |
|--|----------------------|--------------------------|

| | | |
|----|------------|------------|
| a) | \$5,000.00 | \$2,600.00 |
| b) | \$5,000.00 | \$2,762.50 |
| c) | \$5,312.50 | \$2,600.00 |
| d) | \$5,312.50 | \$2,762.50 |

22. A machine has a useful life of 5 years and a residual value of \$10,000. Its accumulated depreciation is \$30,000 at the end of its second year of operation, based on the straight-line method. What is the machine's original cost?
- \$160,000
 - \$140,000
 - \$85,000
 - \$75,000
23. Bombay Inc. bought new computers on January 1 for \$18,000 to improve the quality of their animation. The computers have a useful life of 8 years and no residual value after 8 years. But, continuing technological developments will likely cause Bombay Inc. to replace the computers after 4 years, at which time they will be worth \$2,000. If they use straight-line depreciation, the depreciation expense for the first year will be
- \$2,000.
 - \$2,250.
 - \$4,000.
 - \$4,500.
24. The depreciation expense of an asset can change for all of the following reasons **except** for
- a change in the estimated useful life.
 - a change in the asset's expected residual value.
 - increases due to additions to the asset for major repairs and improvements.
 - Regular repairs and maintenance costs that maintain the asset in a good operating condition.
25. Proctor Papers purchased a machine on January 1, 2020 at a cost of \$380,000 with an estimated residual value of \$30,000 at the end of its estimated useful life of 8 years. On January 1, 2022 Proctor Paper estimates that the machine only has a remaining life of 5 years and a residual value of \$20,000. Proctor Paper uses the double declining depreciation method. Depreciation expense for 2022 would be
- \$94,750
 - \$85,500
 - \$81,429
 - \$79,000

26. Oceanside Developments owns a piece of land it had purchased in 2019 for \$400,000. When they started to develop the land in 2020, they discovered that there were environmental problems with the land. It is now estimated to be worth only \$150,000. Which of the following is the correct way to account for this change of value?
- a) No accounting is necessary because the land is recorded at its historical cost, not its market value.
 - b) The land account should be written down to \$150,000 and an impairment loss recognized.
 - c) The land should be written off completely because now the company cannot use it for the purpose they intended to.
 - d) The land should be depreciated at a new rate to reflect the decline in its value.
27. Factors that may contribute to, or may be assessed in relation to, the impairment of fixed assets include
- a) environmental spills or damage.
 - b) elimination of a business unit due to corporate restructuring.
 - c) the changing economic benefits of an asset.
 - d) all of the listed answers
28. Alexa Corporation has a calendar year end and owns equipment that was purchased for \$225,000 on March 1, 2020. On December 31, 2021 after the year-end adjusting entries, the carrying amount of the asset is \$155,000. Due to damage, management determines the recoverable value to be \$125,000. Alexa would make the following entry related to this asset:
- a) Dr. Depreciation Expense \$30,000; Cr. Accumulated Depreciation \$30,000
 - b) Dr. Loss on Impairment of Equipment \$30,000; Cr. Equipment \$30,000
 - c) Dr. Depreciation Expense \$100,000; Cr. Equipment \$100,000
 - d) Dr. Loss on Impairment of Equipment \$100,000; Cr. Equipment \$100,000
29. On July 1, 2020 a truck was sold for \$10,000. The company originally paid \$28,000 on June 30, 2013 and has recorded accumulated depreciation of \$15,000 up to July 1, 2020. The entry to record the sale would include a
- a) credit to accumulated depreciation for \$15,000.
 - b) debit to trucks for \$28,000.
 - c) credit to gain on sale of truck for \$3,000.
 - d) debit to loss on sale of truck for \$3,000.
 - e) credit to loss on sale of truck for \$3,000.
30. The Capital Cost Allowance (CCA)
- a) ignores residual value.
 - b) has prescribed depreciation rates.
 - c) is very similar to accelerated depreciation rates.
 - d) satisfies all of the other answers.

31. Long-term capital assets with a(n) ____ may **not** be depreciable.
- finite life
 - indefinite life
 - residual value
 - undefined value
32. Which of the following methods is most likely to be used for financial statement purposes to amortize a purchased patent?
- capital cost allowance
 - double-declining balance
 - units-of-production (activity)
 - straight line
33. A declining fixed asset turnover ratio suggests that a:
- company is not as efficient in using its fixed assets as it was in previous periods.
 - company's net sales must be increasing.
 - company must have purchased additional intangible assets.
 - company's beginning fixed asset balance must be greater than its ending fixed asset balance.
34. Consumer Tech Ltd. provides a two-year warranty on all products it sells to customers. The following information is provided for the company's 2020 fiscal year:

| | |
|---|--------------|
| Total sales made in 2020 | \$25,000,000 |
| Estimated cost of servicing products under warranty | 2% of sales |
| Warranty liability balance at January 1, 2020 | \$40,000 |
| Expenditures to satisfy warranty claims in 2020 | \$38,000 |

- What is the balance for warranty liability at the company's year-end on December 31, 2020?
- \$578,000
 - \$502,000
 - \$500,000
 - \$498,000
35. Movie Time Inc. publishes a monthly movie magazine called Movie Insider. The subscription price is \$2 per issue (\$24 annually). Subscribers receive their first issue of the magazine in the month that follows the payment of the subscription price. On November 30, 2020, the company had received \$120,000 from subscribers for which it had to deliver 60,000 future issues of Movie Insider

within the next 12 months. Throughout December 2020, the company delivered 8,000 magazines to subscribers. What is the total deferred revenue to report at the company's year-end on December 31, 2020 (assume there were no new subscriptions in December)?

- a) \$120,000
- b) \$104,000
- c) \$110,000
- d) \$112,000

36. On December 21, 2021, Bubble Soda Ltd. was named as a defendant in a class-action lawsuit alleging \$20 million in damages from mislabeling products between 2005 and 2010. The company's legal department believes it is *probable* the company will lose the lawsuit; however, they are unable to reliably estimate the penalties. Which of the following is the most appropriate way of reporting this event on Bubble Soda's financial statements for 2021?

- a) Debit Loss from legal proceedings 20,000,000; Credit Provision (or contingent liability) \$20,000,000
- b) Debit Contingent Liability \$20,000,000; Credit Cash \$20,000,000
- c) Neither recorded as a liability not reported in the company's notes to its financial statements.
- d) The contingency would not be recorded as a liability but it should be reported in the notes to the financial statements.