CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

EXAM 1 - FALL 2021
DURATION: 2 HOURS

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#. Answers to multiple-choice questions are submitted automatically on COLE.

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, 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	Effect of Adjustments on Specific Accounts	17
B	Preparation of Financial Statements	19
C	Multiple-Choice Questions	34
	Total	**70**

Question A – Effect of Adjustments on Specific Accounts (17 marks; 30 minutes)

RV Mobile Homes Ltd. performs repairs and overhauls to motor homes and trailers at the customer's location. The Company's unadjusted trial balance at September 30, 2021, the end of its fiscal year, included the following accounts and balances. All accounts have normal ending balances. (This is a partial list of accounts.)

Account	**Unadjusted Balance**
Cash	$ 3,400
Accounts receivable	11,200
Repair supplies	8,900
Prepaid insurance	3,900
Repair equipment	70,000
Accumulated depreciation – Repair equipment	28,000
Accounts payable	7,200
Deferred repair revenue	1,500
Note payable, due on December 31, 2022	16,000
Contributed capital	130,000
Retained earnings	25,700
Repair fees revenue	64,300
Wages expense	21,400
Interest expense	600
Utilities expense	1,100

Additional information:

a) A count of the repair supplies on hand at September 30, 2021 amounted to $1,300.

b) The insurance policy indicated that $2,100 of insurance had expired (used up) during the year ended September 30, 2021.

c) Depreciation of the repair equipment was determined to be $7,000 for this fiscal year.

d) The Company had performed $800 of repair services by September 30, 2021 for a client who had paid $1,500 in advance.

e) Wages of $900 were earned by employees but not recorded yet.

f) The note payable was signed on July 1, 2020 and pays interest of 5 percent annually. The first interest payment was made on July 1, 2021.

g) An examination of the accounting records showed that repair services of $1,800 were provided to a client on account, but the transaction was recorded as a cash transaction.

h) The Company estimated that it used $100 worth of electricity during September 2021 but did not account for it yet.

Required:

1. Identify the accounts that are affected by each of the events a) through g) above and the amount of the adjustment. Use the following format to provide your answers. The answer to transaction h) is provided as an example. (11 marks)

Transaction	**Account debited**	**Account credited**	**Amount**
h)	Utilities expense	Utilities payable	100
a)			
Etc.			

2. List the accounts that should appear in the Current Liabilities section of RV's statement of financial position at September 30, 2021 and their ending balances. (6 marks)

Question B – Preparation of Financial Statements (19 marks; 35 minutes)

Canada Clothing Inc. designs, manufactures, and sells performance luxury apparel for men, women, youth, and children. The Company's apparel collections include various styles of parkas, lightweight down jackets, rainwear, footwear, and accessories for all seasons.

The Company's financial statements for the year ended December 31, 2020, included the following elements, listed in alphabetic order (with amounts in millions of Canadian dollars). All accounts have normal ending balances.

Financial Statement Element	**Ending Balance**
Accounts payable	$ 78
Accounts receivable	41
Accrued liabilities	100
Cash	478
Contributed capital	146
Cost of sales	350
Depreciation expense	70
Gain on sale of equipment	2
General expenses	122
Goodwill	105
Income tax expense	16
Income tax payable	19
Income tax receivable	5
Intangible assets	155
Interest expense	31
Inventories	342
Long-term debt	690
Other current assets	31
Property, plant and equipment	350
Retained earnings	454
Sales revenue	904
Selling and administrative expenses	247
Short-term bank loans	20

Other information:

a. The company had an average of 110 million shares outstanding during the year 2020.
b. The Company's total assets at December 31, 2019 is $1,120.

Required:

1. Prepare, in proper form, a multiple-step (classified) statement of earnings for the year ended December 31, 2020. (9 marks).

2. Prepare, in proper form, the <u>assets section only</u> of a classified statement of financial position at December 31, 2020 (7 marks).

3. Compute the values of two ratios that are based on information reported in the financial statements you prepared in requirements 1 and 2, and explain what each ratio measures (3 marks).

Question C: Multiple-Choice Questions: (34 marks; 17 questions, 2 marks each; 55 minutes)

For each of the following multiple-choice questions, choose the letter that corresponds to the **best** answer. *Your answers are saved automatically on COLE. You need not submit detailed calculations.*

1. The account that links the statement of earnings to the statement of financial position is:

   A. Net earnings
   B. Retained earnings
   C. Sales revenue
   D. Total expenses
   E. Shareholders' equity

2. Which of the following statements regarding auditors is true?

   A. Auditors provide 100 percent assurance that the financial statements are accurate.
   B. Auditors check every transaction to determine if it was properly recorded.
   C. Auditors form an opinion about whether the financial statements present fairly the financial position and results of the accounting period.
   D. Auditors prepare the financial statements of a company.
   E. Auditors are generally government officials.

3. Which of the following statements is false?
   A. Assets must always equal the sum of liabilities and shareholders' equity.
   B. Assets are economic resources that are expected to benefit future cash inflows or reduce future cash outflows.
   C. Liabilities are economic obligations or claims against the assets of an organization by outsiders.
   D. Shareholders' equity solely represents the net earnings generated by an organization in the current accounting period.

4. An example of an external transaction is:

   A. Signing a contract to perform services in two months, at which time payment will be received.
   B. Recognizing depreciation expense.
   C. Cash payment in advance for renting a warehouse for three months.
   D. Accruing wages payable at the end of the month.
   E. All of the other statements.

5. Based on the following list of five steps, the appropriate sequence of steps in an accounting cycle is:
   a. Prepare a trial balance.
   b. Record the transaction in a book of original entry.
   c. Prepare the financial statements.
   d. Substantiate the transaction through source documents.
   e. Post the transaction to a ledger.

   A. b, e, d, a, c
   B. d, e, b, c, a
   C. d, e, b, a, c
   D. b, d, e, a, c
   E. d, b, e, a, c

6. On September 1, 2021, Woodmark Inc. paid $1,200 for six months' rent in advance. The bookkeeper who recorded this transaction used rent expense. No other journal entry was made subsequently. At December 31, 2021, the fiscal yearend, Woodmark should:

   A. Debit rent expense and credit prepaid rent for $400.
   B. Debit rent expense and credit prepaid rent for $800.
   C. Debit prepaid rent and credit rent expense for $400.
   D. Debit prepaid rent and credit rent expense for $800.
   E. No adjusting entry is necessary at December 31, 2021.

7. The records of the Singh Company were partially destroyed in a flood. The Company does not know the sales revenue that has been generated during the year, but it knows that 75 percent of its sales have been on account. Furthermore, the Company knows that the beginning and ending balances of its accounts receivable were $31,000 and $35,000, respectively. Cash collections on credit sales were $260,000 from the beginning of the year until the flood occurred. What were the total sales for the year until the time of the flood?

   A. $264,000
   B. $352,000
   C. $198,000
   D. $341,333
   E. Total sales cannot be determined without additional information.

8. The Accumulated Depreciation account of a particular asset reflects

   A. The total of all depreciation expenses already taken on the asset.
   B. The amount of depreciation to be taken in future periods.
   C. Depreciation expense for the current accounting period only.
   D. None of the other statements.

9. Winnie Ltd. provides computer services to business customers. In 2020, the Company failed to record accrued service revenues for $150,000. The Company received and recorded this amount as service revenue in 2021. This accounting treatment would

   A. Have no effect on reported net earnings for 2020.
   B. Make net earnings for 2020 equal to net earnings for 2021.
   C. Overstate net earnings for 2020 by $150,000.
   D. Understate net earnings for 2020 by $150,000.

10. Which of the following are the fundamental characteristics of accounting information?

    A. Predictive value and feedback value.
    B. Relevance and faithful representation.
    C. Relevance and verifiability.
    D. Timeliness and understandability.
    E. Verifiability and faithful representation.

11. Generally, revenues should be recognized at a point when

    A. Management decides it is appropriate to do so.
    B. The goods are available for sale to the ultimate customer.
    C. The financial statements are prepared.
    D. An exchange has taken place and the earnings process is virtually complete.

12. White corporation purchased a calculator for use by the office secretary. The calculator cost $25 and had an estimated useful life of five years. The purchase was recorded as a debit to Office Supplies Expense. Which of the following accounting concepts supports this accounting treatment?

    A. Historical cost
    B. Prudence
    C. Materiality
    D. Consistency
    E. Continuity

13. A company is formed by selling 100 shares at $10 per share. Inventory is then purchased on credit for $600. Half the inventory is then sold on account for $500. What are the company's total assets based on these transactions?

    A. $2,100
    B. $800
    C. $600
    D. $1,800
    E. None of these amounts.

14. An example of an adjusting entry is:

    A. The payment of wages which have been accrued.
    B. The accruing of interest expense.
    C. The return of defective inventory.
    D. The payment of rent in advance.
    E. Any one of the other answers.

15. If the current ratio of a company was 1.78, then the following implication could be made.

    A. The company's current ratio is bad if the average industry ratio is 1.70.
    B. The company's current ratio is good if the current ratio of the prior year exceeded 1.78.
    C. The company's current ratio is bad if the current ratio of the prior year was smaller than 1.78.
    D. The company's current ratio is good if the average industry ratio is 1.70.
    E. Comparisons between a company's current year ratio and either the company's prior year ratio or the average industry ratio are not appropriate.

16. The board of directors of a company is elected by

    A. The general public of the province of incorporation.
    B. The shareholders of the company.
    C. The management of the company.
    D. The federal Minister of Finance.
    E. None of the other answers.

17. An example of a permanent account is

    A. Any expense account.
    B. Any revenue account.
    C. Any asset account.
    D. Any asset or revenue account.
    E. None of the other answers.