

**EXAM 1 (REGULAR) - DURATION: 2.5 HOURS
WINTER 2021**

Name: _____ ID: _____ Section: _____

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. If an answer to a question requires calculations, show the details to earn the allocated marks. Omit narrative explanations for journal entries.
3. Abbreviating any names (for example: account names, headings, subheadings, totals, subtotals, etc.) may be subject to mark deduction.
4. 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	Financial Statements Preparation	27
2	Multiple Choice Questions	66
	Total	93

Question 1 – Financial Statement Compilation (27 marks; 50 minutes)

You have been provided the Statement of Financial Position and Statement of Earnings for MontEgg Inc., a breakfast diner in Montreal, for their December 31, 2020 year end. The financial statements were prepared by the controller's nephew, Dimitri, who has completed only one week of his undergraduate accounting course at university.

The controller is worried that there may be errors in his nephew's assembling of both financial statements using year-end balances. The controller has also confirmed there are no errors in any account balances – only in the assembly and presentation of the statements.

Other information provided by the controller:

- Dimitri confirmed that he did not know how to report the depreciation expense of \$7,000 for equipment acquired in 2020.
- There were 50,000 common shares outstanding at the beginning of the year 2020.
- Rent revenue consisted of two parking spots rented to a neighboring business during the year.
- The tax amount is calculated correctly.

Required:

1. Prepare, in proper form, a corrected multiple step (classified) Statement of Earnings with all applicable accounts and necessary presentation (11 marks).
2. Prepare, in proper form, a corrected classified Statement of Financial Position with all applicable accounts and necessary presentation (16 marks).

MontEgg Inc.
Statement of Earnings
Prepared by Dimitri Samson
(in thousands of dollars)

Revenues & Gains

Net Sales	\$ 2,192
Deferred Revenue	71
Interest Revenue	6
Rent Revenue	12
Goodwill	55
Total Revenues & Gains	\$ 2,336

Expenses & Losses

Rent Expense	\$ (111)
Advertising Expense	(7)
Cost of Sales	(1,800)
Salaries Expense	(128)
Dividends Declared	(2)
Loss on disposal of Equipment	(8)
Discontinued Operations (net of tax)	(125)
Total Expenses & Losses	\$(2,181)
Income Tax Payable	(10)
Profit (Loss)	<u>\$ 145</u>

MontEgg Inc.
Statement of Financial Position
Prepared by Dimitri Samson
(in thousands of dollars)

Assets

Cash	\$ 44
Inventory	78
Accounts Receivable	20
Land	103
Equipment	125

Liabilities

Accounts Payable	\$ 63
Loan Receivable - due May 25, 2021	7
Income Tax Expense	12
Interest Payable	4
Note Payable - due January 31, 2025	100

Shareholders' Equity

Contributed Capital (50,000 Common Shares)	\$ 100
Retained Earnings - January 1, 2020	67

Question 2: Multiple Choice Questions (2 marks each; 66 marks in total; 80 minutes)

Questions 1 to 3 relate to the following information:

Islam Textiles is a fabric wholesaler located in Montreal, Quebec. The company reported the following sales information for the month of August 2020:

Date	Sales Amount \$	Gross Profit %	Customer Payment
August 10	\$127,000	45%	On Account
August 19	\$83,000	35%	On Account
August 23	\$11,000	25%	Cash

1. Which of the following journal entries would Islam Textiles use to record their August 10 sale?
 - a) Debit Accounts Receivable \$127,000; Credit Sales Revenue \$127,000
Debit Cost of Sales \$69,850; Credit Inventory \$69,850
 - b) Debit Accounts Receivable \$57,150; Credit Sales Revenue \$57,150
Debit Cost of Sales \$57,150; Credit Inventory \$57,150
 - c) Debit Sales Revenue \$127,000; Credit Accounts Receivable \$127,000
Debit Cost of Sales \$69,850; Credit Inventory \$69,850
 - d) Debit Cash \$127,000; Credit Sales Revenue \$127,000
Debit Cost of Sales \$57,150; Credit Inventory \$57,150

2. Which of the following journal entries would Islam Textiles use to record their August 23 sale?
 - a) Debit Accounts Receivable \$11,000; Credit Sales Revenue \$11,000;
Debit Cost of Sales \$8,250; Credit Inventory \$8,250.
 - b) Debit Cash \$11,000; Credit Sales Revenue \$11,000
Debit Cost of Sales \$8,250; Credit Inventory \$8,250
 - c) Debit Sales Revenue \$11,000 Credit Accounts Receivable \$11,000
Debit Cost of Sales \$2,750; Credit Inventory \$2,750
 - d) Debit Cash \$11,000; Credit Inventory \$11,000
Debit Cost of Sales \$2,750; Credit Sales Revenue \$2,750

3. What is the total gross profit on sales made by Islam Textiles in August 2020?
 - a) \$88,950
 - b) \$132,050
 - c) \$221,000
 - d) None of the listed answers are correct.

Questions 4 to 6 are based on the following information:

On February 1, 2020, Yao Ltd.'s Board of Directors paid dividends that were declared on January 1, 2020 at \$2 dividend per share. The following table summarizes the number of shares outstanding during fiscal year 2020:

Date	Number of Shares Outstanding
January 1	50,000
February 1	55,000
December 31	57,000

4. The journal entry recorded on January 1, 2020 would consist of:
- a) Debit Dividends Declared \$100,000; Credit Dividends Payable \$100,000
 - b) Debit Dividends Declared \$100,000; Credit Cash \$100,000
 - c) Debit Dividends Payable \$100,000; Credit Cash \$100,000
 - d) No entry would be recorded on this date
5. The journal entry recorded on February 1, 2020 would consist of:
- a) Debit Dividends Declared \$110,000; Credit Dividends Payable \$110,000
 - b) Debit Dividends Declared \$110,000; Credit Cash \$110,000
 - c) Debit Dividends Payable \$100,000; Credit Cash \$100,000
 - d) No entry would be recorded on this date
6. The journal entry recorded on December 31, 2020 would consist of:
- a) Debit Dividends Declared \$114,000; Credit Dividends Payable \$114,000
 - b) Debit Dividends Declared \$114,000; Credit Cash \$114,000
 - c) Debit Dividends Payable \$114,000; Credit Cash \$114,000
 - d) No entry would be recorded on this date

Questions 7 to 10 are independent transactions:

7. Kuczewski Catering Inc is an up-and-coming food services company based in Montreal, Quebec. On May 1, 2020, the company financed its initial operations by issuing 25,000 shares at \$1.50 per share and borrowing \$50,000 from the bank. The journal entry Kuczewski Catering would record on May 1, 2020 would consist of:
- a) Debit Cash \$75,000; Credit Contributed Capital \$25,000; Credit Note Payable \$50,000
 - b) Debit Cash \$87,500; Credit Contributed Capital \$37,500; Credit Accounts Payable \$50,000
 - c) Debit Cash \$87,500; Credit Contributed Capital \$37,500; Credit Notes Payable \$50,000
 - d) Debit Cash \$87,500; Credit Sales Revenue \$37,500; Credit Notes Payable \$50,000
8. Delaney's is a popular student restaurant near Concordia. The company has five full-time servers who each work 35 hours per week at \$15 per hour. At July 31, salaries for the last week of July were scheduled to be paid on August 6 while salaries for the first three weeks were paid during the month of July. Delaney's accountant was sick throughout the month of July, therefore, no journal entries were recorded since June 30. You were brought in to help record the necessary journal entries. The journal entry to record the servers' salaries on July 31 for the month of July would consist of:
- a) Debit Salaries Expense \$10,500; Credit Cash \$7,875; Credit Salaries Payable \$2,625
 - b) Debit Salaries Expense \$10,500; Credit Salaries Payable \$10,500
 - c) Debit Salaries Expense \$2,100; Credit Cash \$1,575; Credit Salaries Payable \$525
 - d) Debit Salaries Expense \$2,625; Credit Salaries Payable \$2,625
9. On January 23, 2020, Ramsaran Sushi Ltd purchased seafood from Ocean Fresh Ltd for \$125,000 – 50% cash and the rest on account. The journal entry to record this transaction would consist of:
- a) Debit Inventory \$125,000; Credit Cash \$62,500; Credit Accounts Receivable \$62,500
 - b) Debit Inventory \$125,000; Credit Cash \$62,500; Credit Accounts Payable \$62,500
 - c) Debit Inventory \$125,000; Credit Cash \$62,500; Credit Notes Payable \$62,500
 - d) No entry to record on this date.
10. On December 1, 2020, Aly Inc met with the local bank to discuss the possibility of securing a business loan for \$100,000 at an annual interest of 2.5%. The principal and interest are payable in 24 months. The journal entry to record this would consist of:
- a) Debit Cash \$100,000; Credit Long-term Note Payable \$100,000
 - b) Debit Cash \$100,000; Credit Interest Payable \$2,500; Credit Note Payable \$97,500
 - c) Debit Cash \$100,00; Credit Long-term Note Payable \$99,792; Credit Interest Payable \$208
 - d) No entry to record on this date

Questions 11 to 15 are related to the following data set:

You have been provided with selected items from the **unadjusted** trial balance for Fayerman Ltd, a services company located in Westmount, Quebec.

Fayerman Ltd
Unadjusted Trial Balance at December 31, 2020 (Year End)

	Debit	Credit
Cash	\$ 8,900	
Accounts Receivable	28,000	
Prepaid Insurance	1,200	
Equipment	200,000	
Supplies	15,000	
Accounts Payable		\$ 12,000
Notes Payable		20,000
Unearned Revenue		18,000
Common Shares		60,000
Retained Earnings		56,700
Sales Revenue		240,000
Salaries Expense	126,600	
Rent Expense	24,000	
Supplies Expense	3,000	
	<u>\$406,700</u>	<u>\$406,700</u>

11. An error was uncovered: It was determined at year end that approximately 1/5 of the sales revenue on the unadjusted trial balance related to sales that had not yet been delivered to customers. Which of the following entries would be necessary to correct the abovementioned error?
- a) Debit Sales Revenue \$48,000; Credit Deferred Revenue \$48,000
 - b) Debit Deferred Revenue \$48,000; Credit Sales Revenue \$48,000
 - c) Debit Deferred Revenue \$48,000; Credit Accounts Receivable \$48,000
 - d) Debit Sales Revenue \$48,000; Credit Cash \$48,000
12. The note payable was issued on May 1, 2020 to Desjardins Bank with the following terms: *6% interest per year, payable every January 1 with the principal due May 1, 2023*. The adjusting entry would consist of:
- a) Debit Interest Expense \$1,200; Credit Cash \$1,200
 - b) Debit Interest Expense \$1,200; Credit Interest Payable \$1,200
 - c) Debit Interest Expense \$800; Credit Interest Payable \$800
 - d) Debit Interest Expense \$800; Credit Note Payable \$800

13. The equipment has a 10-year useful life and was acquired on September 1, 2020. The annual depreciation expense is \$20,000. The adjusting entry would consist of:
- a) Debit Depreciation Expense – Equipment \$20,000; Credit Accumulated Depreciation – Equipment \$20,000
 - b) Debit Depreciation Expense – Equipment \$6,667; Credit Accumulated Depreciation – Equipment \$6,667
 - c) Debit Depreciation Expense – Equipment \$6,667; Credit Equipment \$6,667
 - d) Debit Depreciation Expense – Equipment \$7,500; Credit Accumulated Depreciation – Equipment \$7,500
14. The Prepaid Insurance relates to a 12 month insurance policy which was purchased on September 1, 2020 (assume the company did not have insurance before September 1, 2020). The adjusting entry would consist of:
- a) Debit Insurance Expense \$1,200; Credit Insurance Payable \$1,200
 - b) Debit Insurance Expense \$400; Credit Insurance Payable \$400
 - c) Debit Prepaid Insurance \$1,200; Credit Cash \$1,200
 - d) Debit Insurance Expense \$400; Credit Prepaid Insurance \$400
15. It has been determined that \$13,000 of supplies were used up throughout the entire year. The adjusting entry would consist of:
- a) Debit Supplies Expense \$10,000; Credit Supplies \$10,000
 - b) Debit Supplies Expense \$13,000; Credit Supplies \$13,000
 - c) Debit Supplies Expense \$2,000; Credit Supplies \$2,000
 - d) Debit Supplies \$13,000; Credit Supplies Expense \$13,000

Questions 16 to 18 are related to the following information:

The adjusted trial balance at December 31 year-end for Lagou Printing Inc, a student print shop, is provided below:

Lagou Printing Inc
Adjusted Trial Balance at December 31, 2020

Cost of Sales	\$ 4,600
Depreciation Expense	145
Gross Profit	8,250
Income Tax Expense	1,731
Interest Expense	25
Net Earnings	5,194
Sales Revenue	12,850
Utilities Expense	360
Wages Expense	795

Additional information:

- \$4,000 in dividends were declared and paid in 2020.

16. Which of the following entries is **NOT** an appropriate closing entry?

- a) Debit Income Summary \$12,850; Credit Sales Revenue \$12,850
- b) Debit Sales Revenue \$12,850; Credit Income Summary \$12,850
- c) Debit Income Summary \$5,194; Credit Retained Earnings \$5,194
- d) None of the above

17. Which of the following **IS** an appropriate closing entry necessary to prepare for the 2020-year end?

- a) Debit Income Summary \$5,194; Credit Retained Earnings \$5,194
- b) Debit Cost of Goods Sold \$4,600; Credit Income Summary \$4,600
- c) Debit Gross Profit \$8,250; Credit Retained Earnings \$8,250
- d) None of the above

18. Which of the following represents the closing entry necessary for dividends declared for the 2020-year end?

- a) Debit Dividends Declared \$4,000; Credit Retained Earnings \$4,000
- b) Debit Retained Earnings \$4,000; Credit Dividends Declared \$4,000
- c) Debit Income Summary \$4,000; Credit Dividends Declared \$4,000
- d) Debit Dividends Declared \$4,000; Credit Income Summary \$4,000

Questions 19 to 23 are related to the following data set:

19. Hammami Ltd provided you with the following selected year-end balances from its adjusted trial balance:

Hammami Ltd Adjusted Trial Balance at December 31, 2020 (Selected Accounts)	
Accounts Payable	\$ 31,000
Cash	150,000
Contributed Capital (1,250 shares)	100,000
Cost of Sales	100,000
Deferred Revenue	52,000
Gain on Disposal of Land	73,000
Insurance Expense	71,000
Interest Expense	31,000
Interest Income	21,000
Long-term Debt Payable	283,000
Rent Expense	100,000
Retained Earnings	120,000
Sales Revenue	229,000
Short-term Note Payable	10,000

Additional information:

- 500 shares were issued throughout 2020.
- Assume there is no income tax.

19. Given the above information, gross profit (loss) is equal to:

- a) It cannot be determined without preparing a classified statement of earnings.
- b) \$129,000
- c) \$73,000
- d) \$21,000

20. Given the above information, earnings (loss) from operations is equal to:

- a) (\$52,000)
- b) (\$21,000)
- c) (\$42,000)
- d) \$10,000

21. Given the above information, earnings-per-share is most accurately equal to:

- a) Net earnings is negative; therefore earnings-per-share cannot exist
- b) \$21
- c) (\$42)
- d) (\$52)

22. Given the above information, the return on equity ratio is most accurately equal to:

- a) -18.995%
- b) 21%
- c) 8.71%
- d) 9.55%

23. Given the above information, the current ratio is most accurately equal to:

- a) 1.61
- b) 0.40
- c) 3.66
- d) 2.51

Questions 24 to 33 are independent of each other:

24. Which of the following ratios must be reported in the financial statements?

- a) Current ratio
- b) Net earnings
- c) Net profit margin
- d) Earnings per share

25. Joey Ltd reported \$1,200,000 in current assets, \$1,000,000 in total liabilities and \$500,000 in total shareholders' equity. Based on this information, non-current assets would equal

- a) \$200,000
- b) \$1,700,000
- c) \$300,000
- d) \$3,700,000

26. Which of the following does NOT constitute an external user of financial statements for Kanaan Foods, a large grocery retailer in Western Canada?

- a) Corporate Loan Manager at the local bank
- b) Potential Investor from an investment firm
- c) Government Agent at Canada Revenue Agency
- d) Kanaan Foods' Chief Executive Officer (CEO)

27. Which of the following statements is NOT true?

- a) It is management's responsibility to ensure the accuracy of financial statements
- b) Expenses represent the monetary value of resources an entity uses up, or consumes, to earn revenues during the period
- c) Deferred revenues are revenues recorded in the non-operating section of the statement of earnings
- d) Intentional misreporting of financial statements is both unethical and illegal

28. Which financial statement reports the primary measure of performance of a business during an accounting period?

- a) Statement of Earnings
- b) Statement of Financial Position
- c) Statement of Cash Flows
- d) Statement of Changes in Equity

29. Which of the following statements is **NOT** true?

- a) Retained earnings can have a negative balance at a given reporting date
- b) To declare dividends, a company requires the approval of its board of directors
- c) Public Canadian corporations are required to report their financial statements under International Financial Reporting Standards (IFRS)
- d) Private Canadian corporations are not permitted to report their financial statements under International Financial Reporting Standards (IFRS).

30. Refer to the T-account below for Retained Earnings during fiscal year 2020. Assume \$100,000 represents retained earnings at the beginning of the year, \$1,000 in dividends declared during the year and \$157,000 retained earnings at the end of the year. Based on this information, what would variable "X" most logically represent?

Retained Earnings	
	100,000
1,000	
	X
	157,000

- a) \$58,000 in net earnings for the year ending 2020
 - b) (\$58,000) net loss for the year ending 2020
 - c) \$256,000 in net earnings for the year ending 2020
 - d) (\$256,000) net loss for the year ending 2020
31. Your company orders and receives goods in January, pays for them in February, sells them in March and is paid by customers in April. Using the accrual basis of accounting:
- a) expenses are recorded in February and revenues are recorded in April.
 - b) expenses are recorded in February and revenues are recorded in March.
 - c) expenses and revenues are recorded in March.
 - d) expenses are recorded in January and revenues are recorded in April.
32. After adjusting journal entries are prepared and posted, but before closing journal entries are prepared and posted, the balance in retained earnings is equal to
- a) zero.
 - b) the amount that is to be reported on the current year's statement of financial position.
 - c) the difference between total assets and total liabilities.
 - d) the amount that was reported on the previous year's statement of financial position.
33. What are the fundamental characteristics of accounting information that increase its usefulness to decision makers?
- a) Relevance and verifiability
 - b) Faithful representation and comparability
 - c) Relevance and faithful representation
 - d) Materiality and relevance