

York University AP/Adms 2500.03
Introduction to Financial Accounting
Midterm Examination #1 – Test Form A

Time: 3.0 hours

Fall 2012

Questions: 40

Instructions:

1. **Submit:** Only the pink mark sense sheet will be collected: you may keep this midterm examination paper. Mark your answers on it for later reference.

2. **Mark Sense Sheet:**

- Record your name and student number and answer all questions on the computer mark sense sheet provided with an HB (soft lead) pencil. Bring several pencils in case one breaks. The computer will not recognize ink or hard lead pencils
- Test Form is 'A' and Code is your Section (in the left column)
- Fill in the bubbles for your name and student number in pencil (your phone number is not required). Leave the last column of the student number BLANK
- If you change an answer, use a high quality eraser to completely remove the previous mark. If the computer senses two answers to a question, only the first scanned will be recognized.

3. **Exam Aids:**

- Only calculators without alphanumeric programmable memories are allowed. It is strongly suggested you bring a couple of cheap 4 function computers to the exam in case one fails. Be prepared to be challenged by invigilators if you bring a “fancy” calculator.
- Compact foreign language/English dictionaries may be used. However, these will be examined by invigilators. If there are any loose pages or handwriting in the dictionary, it will be seized and you will be charged with academic dishonesty.
- In 2500, invigilators answer no questions of interpretation. They will pass along questions regarding possible errors/ typos/missing data to the head invigilator. If you believe a question contains an error and do not receive a response, make a detailed note on the front of your exam and submit it with your answer sheet.

4. **Exam Strategy**

- Careful budgeting of time on an accounting exam is essential. Bring a watch and check your progress regularly. Poor time management is the most common reason for poor exam performance in accounting.
- It is always a good idea to attempt the questions you deem easiest first. In an interrupted exam that is not restarted, your exam will be scored based on questions attempted.

- It is essential to transfer your answers to the grading sheet after each question in case the exam is interrupted by fire alarm.
- The last ten minutes of an exam should be devoted to double checking your transfers. What you submit is what is graded. If you have not transferred your answers to the mark sense sheet at the end of the exam, the invigilator will not wait. Your answer sheet will be seized and it will be graded based on whatever questions have choices filled in.
- Remember there is no penalty for guessing on a multiple choice computer graded exam. Submit a choice for every question. Also note that in 2500, choice (E) *None of the above* does indeed represent a frequent correct choice to questions.

5. Exam room regulations:

- All personal belongings either on the floor or at the front of the exam room. All items on your desk will be examined by invigilators
- Bring appropriate ID as proof of registration. You will be required to sign in and show appropriate documentation. Students without ID will be allowed to write the exam, but will be photographed and asked to submit registration and photo ID to the School of Administrative Studies the next day.
- No student may leave the exam in the first hour. No student may start the exam after an hour. Students requiring restroom visits must be accompanied by an invigilator.
- The proctors will announce when there are 15 minutes remaining and any answers not transferred should be recorded at this time. No one is to leave their seat in the last 15 minutes.
- When time is called, the proctors will go down the rows collecting your answer sheets and this exam paper. They will not wait and they will not accept your sheet once they have passed. Any violation of this protocol will result in a grade of zero recorded for the exam.

6. Fire Alarms

- A frequent occurrence in York exams. In the event of a fire alarm, you are to leave your exam and answer sheet face down on your desk and immediately proceed outside with coats and all personal belongings. Print your surname on the back of the exam so you know which seat to return to. An invigilator will lead the group outside to a place of safety. There is to be no talking during the evacuation or outside. Most rooms are cleared so that exams can recommence, within 30 minutes of the alarm. You will be told after this time whether to reenter the room and recommence the exam or to go home.

7. Academic Dishonesty

- You are reminded that cheating is a serious offense which can result in expulsion from university
- Exams at York are held in regular classrooms, which may involve tiered seating. Consequently, neck exercises are not allowed during exams. First instance of wandering eyes has the student relocated to the front of the room. Second instance results in seizure of paper.

8. Special Instructions

- This exam is a case, which then has a series of questions based on that case. While an attempt has been to minimize the impact of the impact of carry-forward errors in question design, some questions of necessity are related to multiple computations or previous questions, so an error potentially can have multi-mark impact.

ONTARIO TRANSPORTATION SERVICES (OTS) Sally Driver operates and is the sole owner of a firm called OTS. Sally is not familiar with bookkeeping and accounting concepts and practices. You have been hired as an accounting consultant to help Sally understand some basic concepts in the accounting field as those concepts apply to her business. After explaining the concepts accounting including accounts, debits and credits and the accounting equation to Sally, you question Sally regarding rules for some common business transactions. These questions are as follows:

Question 1

If there is a credit to Prepaid Supplies, then the most likely debit is to:

- a. Cash
- b. **Supplies Expense**
- c. Cost of Goods Sold
- d. Accounts Payable
- e. None of the above.

Question 2

If there is a debit to Cost of Goods Sold, what is the most likely account credited?

- a. Cash
- b. Prepaid Supplies
- c. **Inventory**
- d. Sales
- f. None of the above

Question 3

If Sally purchases textbooks for her daughter who is enrolled in accounting 2500, the debit entry would be

- a. Prepaid Supplies
- b. **Withdrawals**
- c. Cash
- d. Inventory
- e. None of the above

Question 4

After her daughter completes her accounting 2500 and achieves an A, her father donates the textbooks to the business. The entry credit would be:

- a. Inventory
- b. Supplies
- f. **Owner's Capital**
- c. Cash
- d. None of the above.

Question 5

If OTS just completed work for a customer who had previously paid in advance, the debit entry is

- a. Cash
- b. **Unearned Revenue**
- c. Earned Revenue
- d. Accounts Receivable
- e. None of the above.

Question 6

OTS had 2011 revenues of \$220,000, expenses of \$140,000, and an income tax rate of 30 percent. Net income after taxes would be

- a. \$252,000.
- b. \$24,000.
- c. \$56,000.
- d. \$80,000.
- e. None of the above is correct.

Question 7

Which of the following transactions will cause both the left and right side of the balance sheet equation to increase?

- a. We collect cash from a customer who owed us money.
- b. We pay a supplier for inventory we previously bought on account.
- c. We borrow money from the bank.
- d. We purchase equipment for cash.
- e. None of the above

Question 8

OTS delivered 30 earthmovers to customers for which the customers were billed \$4,100,000. The company collected \$4,000,000 in cash from customers during the year. Indicate which of these amounts will appear on the income statement and which on the statement of cash flows.

- a. \$4,100,000 appears on both the income statement and the statement of cash flows.
- b. \$4,100,000 appears on the statement of cash flows, and \$4,000,000 appears on the income statement.
- c. \$4,000,000 appears on both the income statement and the statement of cash flows.
- d. \$4,000,000 appears on the statement of cash flows, and \$4,100,000 appears on the income statement.

Question 9

If an OTS office van is depreciated on a straight line basis, has an accumulated depreciation of \$14,000 after year-end adjustments, has a yearly depreciation of \$3,500, and an estimated salvage value of \$5,000, then it was purchased:

- a. 4 years ago.
- b. 3 years ago.
- c. 2 years ago.
- d. 1 year ago.
- e. None of the above.

Question 10

Sally asked you to help her sister, Jane Singh, with the cost of goods sold for her retail sales company, Ultimate Sales. The following information was taken from the 2011 income statement of Ultimate Sales: Pretax income, \$12,000; Total operating expenses (not including income taxes), \$21,000; Sales revenue, \$120,000; Beginning inventory, \$11,000; and Purchases, \$90,000. Jane would like you to compute the amount of the ending inventory for her company:

- a. \$87,000
- b. \$14,000

- c. \$16,000
- d. \$12,000
- e. None of the above.

As the consultant, you explain the importance of recording all business transactions to Sally. You are also in charge of training Sally and her bookkeeper regarding the format of transactions. You asked Sally and her bookkeeper to record the following transactions for the month of August 2012:

- August 1 OTS received \$50,000 cash and a truck and trailer from Sally Driver. The truck had originally cost Ms. Driver \$300,000, but had a fair market value of \$230,000 on August 1. The trailer had a fair market value of \$30,000.
- 3 Purchased a new trailer by paying \$5,000 in cash and promising to pay another \$20,000 in one week. The trailer has a list price of \$35,000 and Driver knew it was worth at least \$30,000.
- 4 Paid parking space rental fees of \$400 for the month of August. These fees covered 3 spaces – two for the trailers and one for the truck.
- 5. Hired an assistant for \$750 a week.
- 9 Transported equipment for clients for \$3,200. The clients paid \$1,600 and promised to pay the balance in 30 days.
- 10 Paid \$3,000 of the amount owing on the trailer purchase on August 3rd. Signed a promissory note for the balance, as the company was unable to pay the full amount that day.
- 15 Paid Sally Driver’s personal telephone bill of \$110.
- 20 Received \$1,600 from the clients of August 9th as payment on the haulage.
- 26 Paid the assistant for 3 weeks worth of work.
- 29 Billed a client \$3,000 for hauling equipment from Sudbury to Thunder Bay. The client, who was the owner of service station, paid the bill by providing the company with \$3,000 of truck repair parts.
- 30 Used \$60 of repair part on the truck (a Truck Parts Expense).

Ledger Account Activity to check your work

CASH = 42,440 (50,000 dr + 1600 dr +1600 dr – 5000 cr – 400 cr – 3000 cr – 110 cr -3350 cr)

Truck = 230,000 dr

Trailer = 55,000 (30,000 dr + 25,000 dr)

Prepaid Parking = 400

Drawings = 110

Prepaid Supplies = 2,640 (3,000 dr – 60 cr)

Supplies Expense = 60

Accounts Payable = 0 (20,000 cr – 3,000 dr – 17,000 dr)

Note Payable = 17,000

Revenue = 6,200 (3,200 cr + 3,000 cr)

Salary expense = 2,250

Equity = 310,000

Accounts receivable = 0 (1,600 dr – 1,600 cr)

You ask Sally to determine following balances before any month-end adjustments:

Question 11

Cash of

- a. \$37,040
- b. \$40,190
- c. \$43,140
- d. **\$42,440**
- f. Some other amount

Question 12

Total Payables

- a. **\$17,000**
- b. \$20,000
- c. \$37,000
- d. \$3,000
- e. some other amount

Question 13

Sally Driver's Capital account

- a. \$260,000
- b. \$259,890
- c. **\$310,000**
- d. \$309,890
- e. Some other amount

Question 14

Equipment Transportation Revenue

- a. **\$6,200**
- b. \$3,200
- c. \$3,000
- d. \$9,200
- e. Some other amount

Question 15

Total Assets

- a. \$327,840
- b. **\$330,780**
- c. \$327,440
- d. \$336,980
- e. Some other amount.

Question 16

Total Expenses

- a. \$2,250
- b. \$2,360
- c. \$110
- d. **\$2,310**
- e. Some other amount

Sally was so pleased with your help when she started her business, that she asked you to help her sister Jane with her business transaction bookkeeping and accounting. As part the training for Jane, you ask Jane to practice some transactions and consider the following information regarding her company, Ultimate Sales Retailers for the month of May 2013:

- | | | |
|-----|----|--|
| May | 1 | Jane Singh further invested \$20,000 the business, purchased insurance for the next 6 months at \$225 per month; received a bank loan of \$20,000 with interest at 6% and principal repayments of \$5,000 at the end of each of 4 years. |
| | 2 | Jane purchased merchandise inventory worth \$45,000, half for cash and the rest to be paid in 21 days. |
| | 6 | Received and paid the electricity bill, \$1,600. |
| | 8 | Jane sold merchandise inventory for \$12,000 in cash, cost was \$6,000. |
| | 11 | Jane purchased Store Supplies worth \$1,500 on account. To be paid in 30 days. |
| | 12 | Jane sold merchandise inventory for \$11,500, to be paid in 15 days. Cost was \$5,750. |
| | 15 | Jane purchased merchandise inventory for \$25,000, on account to be paid in 30 days. |
| | 23 | Jane paid remainder owed for May 2 merchandise inventory purchase. |
| | 27 | Jane received remainder of amount owed for May 12 th purchase. |
| | 31 | Jane made month-end adjustments for insurance, bank loan interest, \$500 worth of store supplies used up. |

Ledger account activity to check your work

Cash = 15, 450 or 15,550 depending on whether you paid the interest or set up an accrued liability
(20,000 dr + 20,000 dr + 12,000 dr + 11,500 dr – 1,350 cr – 22,500 cr – 1,600 cr – 22,500 cr – 100 cr)

Sales = 23,500 (12,000 cr + 11,500 cr)

Equity = 20,000

Prepaid Insurance = 1,125 (1,350 dr – 225 cr)

Bank Loan = 20,000

Accounts Payable = 26,500
(22,500cr + 1,500cr + 25,000cr – 22,500 dr)

Inventory = 58,250
(45,000dr + 25,000dr – 6,000cr – 5,750 cr)

Utility Expense = 1,600

Prepaid Supplies = 1,000 (1,500dr – 500cr)

Cost of Sales = 11,750 (6,000dr = 5,750 dr)

Accounts Receivable = 0 (11,500dr – 11,500 cr)

Insurance Expense = 225

Interest expense = 100

Supplies Expense = 500

Then, to ensure that Jane understood the concepts, you proposed the following questions for Jane, based on the above information:

Question 17: Merchandise Inventory purchased on the accrual basis is

- a. \$49,000
- b. \$25,000
- c. \$26,500
- d. \$47,500
- e. Some other amount (70,000)

Question 18: Merchandise Inventory purchased on the cash basis is

- a. \$22,500
- b. \$49,000
- c. \$24,000
- d. \$47,500
- e. Some other amount

Question 19: Cash Balance at end of May is

- a. \$13,750
- b. \$15,450
- c. \$15,550 both answer b and c accepted by the computer
- d. \$14,100
- e. Some other amount

Question 20: Total sales on account at end of May is

- a. \$22,500
- b. \$11,500
- c. \$12,000
- d. \$9,200
- e. Some other amount

Question 21: Accounts Payable Balance at end of May

- a. \$22,500
- b. \$23,400
- c. \$26,500

- d. \$24,000
- e. Some other amount.

Question 22: Total Expenses for month of May is

- a. \$2,425
- b. \$1,825
- c. \$1,925
- d. \$825
- e. Some other amount (1600 +11750+225+100+500) cost of sales is an expense

Question 23: Balance in Prepaid Insurance at the end of May is

- a. \$225
- b. \$1,225
- c. \$1,350
- d. \$1,125
- e. Some other amount

In your last training session with Jane, you both prepared the Trial Balance below. Then, you expended considerable time explaining the intricacies of the Trial Balances. To test her knowledge, you provided her with a number of questions regarding the accounts of Ultimate Retailers in consecutive years.

Ultimate Retailers Comparative Trial Balance

	2014	2013
Debits		
Cash	\$169,000	\$119,000
Accounts Receivable	\$143,000	\$121,000
Merchandise Inventory	\$124,000	\$127,000
Prepaid Advertising	\$4,000	\$5,000
Prepaid Rent	\$2,200	\$2,000
Land and Buildings	\$431,300	\$338,000
Computers	\$31,000	\$19,000
Cost of Goods Sold	\$218,000	
Interest Expense	\$5,000	
Other Operating Expenses	\$132,000	
Total Debits	\$1,259,500	\$731,000
Credits		
Accumulated Depreciation	\$295,000	\$235,000

Salaries Payable	\$8,000	\$12,000
Accounts Payable	\$118,000	\$106,000
Bank Loan Payable	\$100,000	\$125,000
Interest Payable	\$2,000	\$1,500
Jane Singh, Capital	\$200,000	\$200,000
Retained Earnings	\$116,500	\$51,500
Sales	\$420,000	
Total Credits	\$1,259,500	\$731,000

You asked Jane to answer following regarding the above accounts from the comparative trial balance:

Question 24: The change in the cash balance from 2013 to 2014 is:

- a. \$48,000
- b. \$50,000
- c. \$75,000
- d. \$60,000
- e. None of these amounts.

Question 25: Payments made on the Bank Loan during 2014 are:

- a. \$25,000
- b. \$33,000
- c. \$4,000
- d. \$37,000
- e. None of these amounts.

Question 26: Collections from customers during the 2014 year are:

- a. \$442,000
- b. \$541,000
- c. \$277,000
- d. \$420,000
- e. None of these amounts. If Sales is 420 then this is also a debit to Accounts Receivable. Accounts Receivable needs a 398 credit to balance and this must represent payments by customers.

Question 27: Payments to Suppliers during the 2014 year are:

- a. \$200,000
- b. \$210,000

- c. \$215,000
- d. \$203,000 Cost of sales has a 218 dr and the corresponding credit must be a credit to inventory. Inventory needs a 215 dr to balance and this must correspond to a 215 cr to Accounts Payable. Accounts Payable needs a 203 dr to balance and this amount represents payments to suppliers
- e. None of these amounts.

Question 28: The net change in liabilities (excluding Interest) from 2013 to 2014 is:

- a. \$17,000
- b. \$12,000
- c. -\$12,000
- d. -\$17,000
- e. None of these amounts.

Question 29: The Gross Profit for 2014 is:

- a. \$202,000
- b. \$210,000
- c. \$70,000
- d. \$65,000
- e. None of these amounts.

Question 30: The Net Income for 2014 is:

- a. \$202,000
- b. \$210,000
- c. \$70,000
- d. \$65,000
- e. None of these amounts.

Question 31

The essential difference between cash discounts and trade discounts is:

- a. Trade discounts are recognized in the accounting records but cash discounts are not
- b. Cash discounts are recognized in the accounting records but trade discounts are not
- c. The buyer calls them cash discounts but the seller calls them trade discounts
- d. The buyer calls them trade discounts but the seller calls them cash discounts
- e. None of the above

Question 32

A contra account:

- a. Sits opposite to another related account on the opposite side of the balance sheet
- b. Is only found in the income statement in the Cost of Goods Sold section
- c. Is an offset to its related parent account
- d. Is used in the cash basis of accounting but not in accrual accounting
- e. None of the above

Question 33

Adjusting entries are either accruals or deferrals. In a deferral the cash flow:

- a. Occurs before the expense recognition
- b. Occurs after the expense recognition
- c. Occurs by definition the same time as the expense recognition
- d. Is irrelevant since the cash flow means nothing in the accrual model
- e. None of the above

Question 34

A transposition error in a trial balance implies:

- a. The error is divisible by nine
- b. Two numbers are interchanged when being entered
- c. The trial balance will be out of balance
- d. Choices a, b and c are all correct statements
- e. Nothing – there is no such term in accounting

Question 35

The funds received from selling off an unused, idle factory would be shown in the cash flow statement as:

- a. An investing activity
- b. A divesting activity
- c. A financing activity
- d. An operating activity
- e. None of the above

The following questions are drawn from your textbook

Question 36

If you wanted to find financial information on a Canadian public company such as RIM you would:
Choose one answer.

- a. Visit CIGAR.com

- b. Visit COMPANIES.com
- c. Visit RIM's website
- d. Visit SEDAR.com
- e. Two of the above choices will work

Question 37

What is the primary purpose of the balance sheet?

Choose one answer.

- A. To measure the net income of a business up to a particular point in time.
- B. To report the difference between cash inflows and cash outflows for the period.
- C. To report the financial position of the reporting entity at a particular point in time.
- D. To report assets at their current market value at a particular point in time.
- E. None of the above statements reflects the primary purpose of the balance sheet.

Question 38

Payment of a liability would do which of the following?

Choose one answer.

- a. Decrease shareholders' equity.
- b. Decrease assets.
- c. Not affect assets.
- d. Increase shareholders' equity.

Question 39

An "accrued" expense is an expense that:

Choose one answer.

- a. Does not involve real sums of money
- b. is estimated because it has been incurred but the cash flow happens later.
- c. Sits in the section of current liabilities called accrued liabilities.
- d. None of the above

Question 40

During 20B, its second year in operation, Banner Company delivered goods to customers for which customers paid or promised to pay \$5,850,000. The amount of cash collected from customers was \$5,960,000. The amount of accounts receivable at the beginning of 20B was \$1,200,000. What is the amount of sales revenue that Banner should report on its income statement for 20B?

Choose one answer.

- a. \$4,650,000.
- b. \$4,760,000.
- c. \$5,850,000.
- d. \$5,960,000.

END OF EXAM