

York University AP/Adms 2500.03
Introduction to Financial Accounting
Midterm Examination #2 – Test Form A
Fall 2011

Time: 3 hours

Questions: 50

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. There are time value of money tables appended to the end of this examination and also some blank pages to do calculations.

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. You may not use a cell phone as a 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. Electronic dictionaries are banned.

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 10 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: Asking questions of Invigilators

- ❖ **IN 2500, INVIGILATORS ANSWER NO QUESTIONS OF INTERPRETATION. Your invigilator may not have even taken accounting.**
- ❖ **Accounting** exams contain so many numbers that some times typos creep into the exam questions despite proofreading. If you notice what appears to be a typo ask the nearest invigilator. They will pass along questions regarding possible errors/ typos/missing data to the head invigilator. If there is a typo and it is caught early during the exam, a correction will be announced and placed on the front board. Typos caught late in the exam will just result in that particular question not being scored by the computer. If you believe a question contains an error and do not receive a response during the exam then this is an issue for you to send an email to your instructor post exam.

QUESTION 1

The accounting records of ABC Ltd. show that the following adjusting journal entry was made in the general journal in the month of October.

Dr Bank Service Charge Expense 500
Cr Cash 500

As a well educated and trained accounting student you would rightfully conclude that in the October bank reconciliation for ABC that the \$500 shows as:

- A) An addition in the reconciliation (i.e., there is a plus sign in front of the number)
- B) A deduction in the reconciliation (minus sign in front of the number)
- C) It shows both as a deduction and as an addition in the reconciliation
- D) It doesn't show in the reconciliation. It comes from some other source.

QUESTION 2

In the same bank reconciliation there is reference to a cheque recorded in ABD's Cash Disbursements Journal as \$154 when in fact the amount actually written on the cheque is \$145. The latter number is correct. The appropriate reconciling amount in the reconciliation would show as:

- A) An addition in the reconciliation (i.e., there is a plus sign in front of the number)
- B) A deduction in the reconciliation (minus sign in front of the number)
- C) It shows both as a deduction and as an addition in the reconciliation
- D) It doesn't show in the reconciliation. It comes from some other source.

QUESTION 3

In the same reconciliation there is reference to a *deposit in transit* of \$1,000. It would show in the reconciliation as:

- A) An addition in the reconciliation (i.e., there is a plus sign in front of the number)
- B) A deduction in the reconciliation (minus sign in front of the number)
- C) It shows both as a deduction and as an addition in the reconciliation
- D) It doesn't show in the reconciliation. It comes from some other source.

QUESTION 4

In the general journal for ABC in October the adjusting entry we would expect to see reflecting the \$1,000 deposit in transit would be:

- A) dr cash 1,000 and cr cash receipts 1,000
- B) dr cash 1,000 and cr sales 1,000
- C) dr bank 1,000 and cr cash 1,000
- D) dr cash but nor corresponding credit (a one sided entry to correct the bank error)
- E) None of the above

QUESTION 5

CCD Co. has a petty cash account which was established at the amount of \$100 and prepares a balance sheet. Before preparing the balance sheet, Joe, the accountant, looks in the petty cash box and sees only \$10 in currency. He added the ten dollars to the General Ledger balance for Cash to get his appropriate number for Cash on the Balance Sheet.

- A) Joe has followed GAAP
- B) Joe has violated GAAP
- C) Joe has broken two GAAP rules here but they counteract each other so the ultimate effect is that cash on the balance sheet is correctly stated.
- D) We need more information to decide whether there has been a GAAP violation.

******The next four questions (6 to 10) all relate to data for GIGO Ltd. ******

GIGO has the following trial balance for receivables at October 31 2011.

Customer	Invoice date	Amount
A	Oct 16	\$10,000
B	Aug 31	\$20,000
C	Oct 25	\$5,000
D	Sept 5	\$15,000
E	Oct 10	\$8,000
F	Oct 12	\$12,000
Total		\$70,000

Prior to preparing the month end financial statements, the accountant performed a collectability review on these receivables and concluded that customer D’s ability to pay seemed highly suspect, but the other customers all had good reasons for being late. She also noted the Allowance for Doubtful Accounts in the general ledger has an unadjusted balance of \$5,000 cr at October 31.

QUESTION 6

From strictly the information above it is clear that GIGO follows which accounting method for handling uncollectible receivables:

- A) Direct write off method
- B) Allowance method (aging)
- C) Realizable value method
- D) Aged Collectability method
- E) None of the above

QUESTION 7

Assume that GIGO's accountant finishes her collectability review and decides that only the balance from customer D is suspect. All other overdue accounts have good explanations. She should make an adjusting entry which would have the following credit to an account:

- A) Uncollectible accounts expense \$15,000
- B) Uncollectible accounts expense \$10,000
- C) Allowance for doubtful accounts \$15,000
- D) Allowance for doubtful accounts \$10,000
- E) None of the above

QUESTION 8

Assume that customer D did not pay its account and in December 2011, the accountant for GIGO decided to write off the account. The charge (debit) to expense as part of this write off entry would be:

- A) \$0
- B) \$5,000
- C) \$10,000
- D) \$15,000
- E) some other amount

QUESTION 9

Assume that in January 2012, without warning or notice that GIGO receives a cheque in the mail for \$5,000 with a brief note attached saying "Our apologies, remaining monies to follow shortly". After following proper GAAP procedure regarding making appropriate journal entry(s) to process this event the balance in Customer D's account would show as:

- A) \$0
- B) \$5,000
- C) \$10,000
- D) \$15,000
- E) some other amount

QUESTION 10

Assume that part of GIGO's sales policies are to charge overdue interest at 24% per annum on overdue accounts. On October 31 how much interest should be charged to customer B's account? (all choices rounded to the nearest dollar)

- A) \$0
- B) \$200
- C) \$400
- D) \$600
- E) \$800

*****end of questions relating to GIGO ltd.*****

QUESTION 11

PDQ Ltd. has just received a very large sum of money by selling off one of its subsidiaries. It immediately uses the funds to buy an annuity that will pay it back ten installments of \$2,000,000 for ten years starting one year from today. Money is worth 10% per annum and the investment is compounded semi-annually. How much did the annuity cost rounded to the nearest dollar?

- A) \$15,922,244
- B) \$16,607,282
- C) \$16,994,314
- D) \$17,289,655
- E) None of the above

QUESTION 12

If you had a choice of putting your \$1 life savings into investment alpha (which bears 5 % compound interest compounded annually) or putting your \$1 into investment beta (which bears interest at only 4% but is compounded semi-annually), which investment is better for you if you invest for a year?

- A) Alpha
- B) beta
- C) they both provide identical returns
- D) there is not enough information to answer this question

QUESTION 13

Max Co. buys a new machine and agrees to pay for the machine with the following terms. There is no down payment and Max sends a cheque in for \$400,000 for each of the next six years. Money is worth 8% per annum and is compounded quarterly. Max would capitalize this machine at:

- A) \$0 (you cant capitalize it until it is fully paid for)
- B) \$400,000 (and each year the capitalization would be increased by another \$400,000)
- C) The gross amount of the obligation (\$2,400,000)
- D) Some other amount

QUESTION 14.

If \$5,105,120 is the FV (future value) of an investment and \$4,000,000 is the PV (present value) of that same investment then how many periods would the investment have to run given that money is worth 10% per annum and compounding occurs semi-annually? Round your answer to the nearest whole number and remember that .5 and up rounds up while less than .5 rounds down.

- A) 5 periods
- B) 6 periods
- C) 7 periods
- D) 8 periods
- E) 9 periods

QUESTION 15

Wiki Widget Co. purchases a factory and pays cash and uses the factory to produce mighty fine widgets and then a year later turns around and sells the building for the same amount it paid to Delta Co. (money is worth 12% compounded monthly). Wiki will record:

- A) A gain on the sale
- B) A loss on the sale
- C) Neither a gain nor a loss on the sale
- D) Not record this as a sale until payment in full is received
- E) There is insufficient information to answer this question

QUESTION 16

The rate of inflation in Canada as announced by Stats Canada is 2.8% this year. Shady Company is desperately short of cash. If Shady wished to reduce the taxes it paid Revenue Canada this year by deliberately understating its net income then when counting its ending inventory at year end it would:

- A) understate the true quantity of its ending inventory
- B) overstate the true quantity
- C) Not bother to do either since neither would impact the bottom line (reported net income)

QUESTION 17

The rate of inflation in Canada as announced by Stats Canada is 2.8% this year. Sunny Company has just been formed and cash is scarce. It wants to report the lowest profit possible to Revenue Canada to minimize its taxes. Sunny is choosing its accounting policies now. Assuming that all of these were allowed under Canadian GAAP Sunny would adopt:

- A) LIFO
- B) FIFO
- C) Weighted average
- D) Cost or market
- E) Doesn't matter since they all have equal impact on reported profits.

QUESTION 18

Firecracker Co. sells firecrackers and just had an unfortunate accident with an employee smoking in its warehouse. The employee, the inventory and the warehouse were part of one impressive light show but today exist no more. To honour the employee, the resulting crater will be filled with water and set up as a mini park with the employee's name. Firecracker did have insurance on the contents (inventory of firecrackers) but the building as high risk (and crazy high premiums) was left uninsured. Since the employee broke a posted no smoking rule it has no liability for his death. Firecracker wants to submit an insurance claim for the lost inventory and has the following information in its records. It uses the periodic inventory system.

Opening inventory (from last years financials)	\$12,000,000
Sales for this year (from Sales Journal)	\$70,000,000
Average gross profit percentage over the past five years	20%
Purchases for the year (from the Purchases Journal)	\$80,000,000

Firecracker will submit a claim for:

- A) \$24,000,000
- B) \$32,000,000
- C) \$36,000,000
- D) \$40,000,000
- E) some other amount

QUESTION 19

Stukey Ltd. buys a building on April 1, 1995 for \$550,000. The building will last for 50 years, but Stukey expects to use the building for 30 years. At the end of 50 years the building will have no disposal value, but is expected to have a \$50,000 disposal value at the end of 30 years. Stukey uses the straight-line method of depreciation.

The depreciation expense at for the year-ended December 31, 2003 is:

- A) \$7,500
- B) \$10,000
- C) \$15,000
- D) \$9,000
- E) none of the above

QUESTION 20

Tron Company purchased a new machine on Jan 1, 1984 for \$33,000. At the time of acquisition, the machine was estimated to have a useful life of 10 years and an estimated value at the end of the ten years of \$3,000. The company has recorded monthly depreciation using the straight-line method. On July 1, 1993, when the net book value of the machine was the machine was \$4,500, it was sold for \$5,000. The gain or loss which should be recognized from the sale of the machine is:

- A) \$0 (no gain or loss)
- B) a loss of \$500
- C) a gain of \$1,000
- D) a gain of \$1,500
- E) none of the above

QUESTION 21

Bing Co had constructed a small building for \$364,000 on January 1, 1998. When the building was built it was expected to be used for 8 years and then be sold for \$44,000. At the beginning of January, 2000, a \$116,000 addition was made to the building so it would be useful until December 31, 2009 at which time it is expected to be sold for \$20,000. The depreciation expense for 2000 will be:

- A) \$38,000
- B) \$40,000

- C) \$43,600
- D) \$32,000
- E) none of the above

QUESTION 22

Noya Ltd owns a machine that has a net book value of \$40,000 and a fair market value of \$36,000. The old machine is traded in for a new dissimilar machine (hint: gain/loss recognition appropriate) that has a list price of \$50,000. In addition to giving up the old machine, Noya pays \$12,000 in cash. The new machine should be recorded at:

- A) \$70,000
- B) \$48,000
- C) \$52,000
- D) \$36,000
- E) none of the above

QUESTION 23

The term used to refer to the systematic allocation of the original cost of an intangible asset to expense to achieve proper matching in the income statement is:

- A) depreciation
- B) depletion
- C) amortization
- D) write-off
- E) none of the above

QUESTION 24

If the accountant for Forgetful Corporation makes a mistake (error) and records annual depreciation twice in 2011 then:

- A) the error will have a two year counterbalancing effect and retained earnings will be correctly stated at the end of 2012.
- B) both assets and expenses will be overstated in 2011
- C) there is no error in the 2011 financials since the overstatement of depreciation expense corresponds to the understatement of accumulated depreciation

- D) this will be caught and corrected before actual preparation of the financial statements since the trial balance will be out of balance
- E) none of the above

QUESTION 25

Ace Ltd. purchases a property, which consists of land and building, for \$1,000,000. Ace hires a professional appraiser to estimate the fair market value of each and the appraiser suggests the land is worth \$600,000 and the building is worth \$100,000. Ace will set up the building on its books at:

- A) \$200,000
- B) \$0
- C) \$250,000
- D) \$500,000
- E) none of the above

*****Use the following information on Pedo Corporation to answer questions 26 to 29*****

The Pedo Co. sells pedometers to track the number of steps the wearer takes: recent studies suggest that if we walk 10,000 steps per day we will be on our way to better health. Although all the pedometers Pedo has ever received from its supplier are identical, the cost charged by the supplier has been increasing overtime. The following information has been extracted from the records of Pedo Co.:

January 1	Beginning Inventory	5,500 units @ \$2.60 each
January 9	Bought	10,000 units @ \$2.80each
January 15	Sold	12,000 units @ \$4.00
January 25	Bought	7,500 units @ \$3.00

QUESTION 26

Given the information above for Pedo, if it uses the FIFO cost flow assumption and the perpetual inventory method, the cost of goods sold for January is:

- A) \$32,500
- B) \$34,000
- C) \$35,100
- D) \$33,200
- E) none of the above

QUESTION 27

Given the information above for Pedo, if it uses the LIFO cost flow assumption and the periodic inventory method, the cost of goods sold for January is:

- A) \$34,000
- B) \$35,100
- C) \$33,200
- D) \$32,500
- E) none of the above

QUESTION 28

Given the information above for Pedo, if it uses the perpetual inventory system, the inventory was counted on January 31, the stock count revealed there were 10,000 units on hand and no adjustment is made to the accounting records, the financial statements will:

- A) understate inventory and net income
- B) overstate inventory and understate net income
- C) overstate inventory and net income
- D) understate inventory and overstate net income
- E) none of the above

QUESTION 29

Given the information above for Pedo, if the pedometers are stocked in the warehouse so that the most recently shelved pedometers received from the supplier are picked and shipped to customers (*hint: review in your mind the distinction between cost flow and physical flow*)

- A) Pedo must use the LIFO cost flow assumption
- B) Pedo would be violating the matching principle if it were to use a weighted
- C) average cost flow assumption
- D) both (a) and (b) above
- E) none of the above

****end of Pedo questions****

QUESTION 30

Ignoring the issue of whether or not GAAP allows use of the Direct Write-Off method of recording credit losses, its major theoretical shortcoming is that:

- A) credit losses are not recognized as expense
- B) it requires estimates that are too subjective to be useful
- C) it fails to provide proper matching with revenues
- D) it cannot be used if cash discounts are part of the sales terms
- E) none of the above

QUESTION 31

Occasionally, after passage of time, a company using the allowance method to record credit losses will receive a cheque for payment of an account it had deemed uncollectible and had written off. The company should properly:

- A) credit uncollectible accounts (bad debt) expense
- B) credit gain on recovery of bad debts
- C) reinstate the customer's account before recording the cash receipt
- D) credit sales
- E) none of the above

QUESTION 32

The depreciation method which does not depend on an estimate of asset life expressed in units of time, is:

- A) straight line method
- B) units of activity
- C) capital cost allowance
- D) declining balance
- E) all of the above methods use time in their calculations

QUESTION 33

The formula for which of the following depreciation methods does not include salvage (residual) value:

- A) straight line
- B) units of activity
- C) capital cost allowance
- D) declining balance
- E) all of the above methods include salvage value in their formula.

QUESTION 34

A contingent liability that is "probable" as to outcome but cannot be reasonably estimated as to amount would be:

- A) accrued and recorded as an expense and obligation on the company's books

- B) not be accrued, but only disclosed in a footnote
- C) ignored (neither accrual nor disclosure is necessary)
- D) set up as a contingent liability with an offsetting contra account which would be removed when the amount is known with certainty
- E) none of the above

QUESTION 35

The balance in the Estimated Liability for Warranties shown on the end of year Balance Sheet represents:

- A) the costs actually incurred for repairs made to date
- B) the estimated costs of repairs for sales not yet made
- C) an amount identical to that shown in the Income Statement for Warranty Expense
- D) the difference between the estimated costs of servicing warranties on products sold and the costs of servicing those products already returned for repairs
- E) none of the above

QUESTION 36

Sell It Ltd. had the following information in its accounting records:

- a \$48,000 beginning inventory
- a \$57,000 ending inventory.
- Sales were \$370,000
- Sales returns and allowances \$10,000
- Purchases \$267,000
- Freight In \$12,000

Gross profit percentage (rounded to the nearest percent) for Sell It would be:

- A) 72%
- B) 73 %
- C) 75%
- D) 78%
- E) none of the above

QUESTION 37

A company purchases land with a building on it. The method used to allocate the purchase price to the two different assets is called:

- A) Asset allocation protocol
- B) Basket purchase method
- C) Relative purchase value method
- D) Two step waltz
- E) None of the above

QUESTION 38

Growing Corporation financed a \$500,000 expansion by mortgaging their head office building for four years. They negotiated a rate of 10% per annum and agreed to make annual blended payments of \$157,734 per annum at the end of each of the next four years. The interest expense for year 2 (rounded to the nearest \$10) would be:

- A) \$50,000
- B) \$39,230
- C) \$157,730
- D) \$15,770
- E) none of the above

QUESTION 39

Brock Limited had an Estimated Liability for Product Warranties balance of \$4,000 at the end of 2009. During 2010, Brock made sales of \$100,000 and expected that the cost of repairs to honour warranties on these sales would be about 3% of sales. During 2010, Brock actually incurred costs of \$5,000 in servicing warranties. The appropriate balance for the Liability for Product Warranty account at the end of 2010 is:

- A) \$7,000
- B) \$5,000
- C) \$3,000
- D) \$2,000
- E) none of the above

**Questions 40 TO 50 are true false questions. On your pink score sheet use
Choice A = true
Choice B = false**

***For example if the question was:
Your 2500 instructor is exceedingly handsome (true or false)?, you would mark choice A on
the pink scantron sheet since the statement is true***

***Make sure you double check your markings. Students who come up later and say I marked the
wrong box for whatever reason will be told "life's tough". There is no penalty for guessing
on either multiple choice or true false so no point in leaving any question blank.***

QUESTION 40

If a company has a Petty Cash Fund, it was created by taking a cheque to the company's bank written to "Cash" and cashing it at the bank. **(true or false?)**

QUESTION 41

If you purchase inventory from your supplier and the terms are 2/5 n/10 and you pay in full within the discount period , you will send in a cheque for less than the amount set up in your Accounts Payable. **(true or false?)**

QUESTION 42

If a company has a gross payroll of \$50,000 and a net payroll of \$40,000 then the difference is called "payroll withholdings" **(true or false?)**

QUESTION 43

Purchase allowances are trade discounts (discounts granted off the regular purchase price usually because of the bargaining power of large volume purchases **(true or false?)**

QUESTION 44

If a note receivable is not paid on its maturity date it will always trigger an immediate write off entry which may or may not be reversed depending on future circumstances. **(true or false?)**

QUESTION 45

If a company fails to set up a warranty provision on a product that comes with a warranty than the accounting principle most flagrantly violated is matching **(true or false?)**

QUESTION 46

If a capital asset is taken out of production and is set aside as an asset for sale then it should be written down to net realizable value (NRV) **(true or false?)**