

York University
AP/Adms 2500.03
Introduction to Financial Accounting
Practice Midterm Examination

Time: 3.0 hours
Questions: 50

Instructions:

1. This practice exam does not indicate in any way either topics stressed or topics omitted from your actual midterm 2 exam coverage. **Its sole purpose is to give you extra practice in writing computer graded multiple choice accounting exams.** This is an actual exam from some previous year in a semester where there was only one midterm. This means the exam covered modules 1 to 12 inclusive and contained bookkeeping and theory questions which would not likely be appropriate in a two midterm environment. For instance, this exam did not include coverage of the cash flow statement (module 13), Shareholders Equity (Module 12), Long Term Liabilities (Module 11) or time value of money (module 8) but did include coverage of module 14 Part 1 (accounting theory). It also contained a mini-bookkeeping case since there was no separate bookkeeping exam (midterm 1). This practice exam certainly contains more “easy” theory questions than you would expect to see on Midterm 2.
2. Probably 50% of the difficulty of 2500 exams is simply exam stress, lack of practice in writing university level examinations and in particular inability to properly budget time. You will double the learning value of this exercise if you take the exam under strict exam conditions. This means a three hour single sitting with no exam aids such as friends or open books. While it is impossible not to peek at the exam as soon as it is posted to your website, you are not ready to actually take the exam until you have finished your study of module 13.
3. A solution will be posted the week before your midterm to check answers.
4. If you are someone who absolutely wants a career as a professional accountant and demands nothing less than a A in this course, then get a study buddy in the course and make each other an additional practice exam.....the oldest adage in education is “practice makes perfect”.

1. The financial statement that provides information about fiscal performance on an accrual basis is the
 - a) Income Statement
 - b) Statement of Owner's Equity
 - c) Balance Sheet
 - d) Cash Flow Statement
 - e) None of the above

2. Which of the following is a liability?
 - a) Warranty Expense
 - b) Advances from customers
 - c) Accumulated Depreciation
 - d) Both (b) and (c) above
 - e) None of the above

3. Which of the following account types are increased by credits and decreased by debits?
 - a) Assets
 - b) Liabilities
 - c) Expenses
 - d) Credit Accumulations
 - e) None of the above

4. Which of these statements about debits and credits is correct?
 - a) Credits always mean decreases
 - b) Debits are always recorded on the left
 - c) Debits increase shareholders' equity
 - d) Assets have normal credit balances
 - e) None of the above

Use the following information for Questions 5 – 8

According to its website (www.smuckers.com), the J.M. Smucker Company was founded in 1897 when the Company's namesake and founder sold his first product -- apple butter -- from the back of a horse-drawn wagon. Today, over a century later, the Company is the market leader in fruit spreads, peanut butter, shortening and oils, ice cream toppings, and health and natural foods beverages in North America under such icon brands as Smucker's®, Jif® and Crisco®.

The Report on Business in the Globe and Mail, February 22, 2005 reported the following:

J.M. Smucker Co.'s fiscal third-quarter profit rose 15 per cent, despite charges, as its acquisition last year of International Multifoods boosted sales. The Orrville, Ohio, maker of jams, jellies and preserves reported profit of \$36.1-million (U.S.) for the quarter ended Jan. 31. Per-share profit declined 1.6 per cent to 61 cents due to more shares outstanding in the latest quarter. Sales grew 60 per cent to \$550.2-million. The units that were acquired from Multifoods contributed \$187.6-million to sales.

5. Based on the information given, Smucker's year-end is most likely
 - a) February 22
 - b) January 31
 - c) December 31
 - d) April 30
 - e) None of the above

6. Based on the information given, assuming all amounts were reported in US dollars and that there were no gains or losses, Smucker's expenses for the reported third-quarter were
 - a) \$550.2-million U.S.
 - b) \$36.1-million U.S.
 - c) \$514.1-million U.S.
 - d) \$187.6-million U.S.
 - e) None of the above

7. Based on the information given, Smucker's profit for the **second**-quarter was
 - a) approximately \$36.1-million U.S.
 - b) approximately \$187.6-million U.S.
 - c) approximately \$31.4-million U.S.
 - d) approximately \$30.7-million U.S.
 - e) None of the above

8. The latest audited financial statements, posted by Smucker's on its website, include the following note:

Revenue Recognition: The Company recognizes revenue when all of the following criteria have been met: a valid customer order with a fixed price has been received; the product has been shipped and title has transferred to the customer; there is no further significant obligation to assist in the resale of the product; and collectibility is reasonably assured.

Based on the information given, Smucker's revenue recognition policy is best characterized as

- a) An accrual basis
- b) A cash basis
- c) A fixed price basis
- d) An assured basis
- e) None of the above

----- end of Smucker's questions -----

9. Lola Run Corporation's retained earnings decreased by \$300,000 during the year. Also during the year, dividends totaling \$475,000 were paid to shareholders. Kim Corporation's net income for the year was:

- a) \$175,000
- b) \$475,000
- c) \$300,000
- d) \$650,000
- e) none of the above

10. Using the following information:

Long-term Assets	\$400,000
Current Assets	\$50,000
Long-term Liabilities	\$100,000
Common Shares	\$110,000
Shareholder's Equity	\$180,000

the balance of the Current Liabilities is

- a) \$60,000
- b) \$170,000
- c) \$240,000
- d) \$100,000
- e) none of the above

11. Choose the phrase that best completes the following idea: Businesses ask that accountants compute profit in arbitrary, short time periods. Tricky but doable - provided we are willing to accept that financial statement preparation involves _____.
- a) cash basis accounting
 - b) tax considerations
 - c) market value computations
 - d) making estimates
 - e) none of the above
12. Choose the phrase that best completes the following sentence: Enterprises need _____ in place so they choose appropriate GAAP and so their Boards hear, and react appropriately, to concerns of the CFO (chief financial officer) and other accountants hired by management to prepare and audit financial statements.
- a) strong bookkeeping practices
 - b) corporate governance practices
 - c) auditors
 - d) securities commissions
 - e) none of the above
13. The balance in all assets accounts combined is \$200,000 on December 1. During December, the following transactions took place:
- Purchase of \$20,000 of inventory for cash
 - Purchase of \$30,000 of machinery on account
 - Paid accounts payable of \$40,000 with cash
- The combined December 31 balance in the asset accounts is
- a) \$230,000
 - b) \$160,000
 - c) \$190,000
 - d) \$210,000
 - e) none of the above

Use the following information for Questions 14 - 20

(You may remove this page from this booklet if it makes your work easier).

HighAction supplies quality crew and camera crane services to the film and TV industry. Customers are charged \$500 per day for the crane alone and \$2,000 per day when the crane is equipped with a Power Pod 2000, a system of controls to the camera head used for sophisticated tilt, pan and roll effects. Crane technician services are provided to customers for \$50 per hour. HighAction pays its crane technicians \$25 per hour.

HighAction acquired its used, one and only giraffe camera crane and Power Pod 2000 system on January 1st from a television studio in exchange for a 12%, \$180,000 note payable due in two years. It expects it will be able to rent the equipment to customers for 5 years before it becomes totally obsolete and is scrapped.

HighAction's accounting records for January, its first month of operation are summarized as follows:

Cash Receipts:

Invested by owner, Pan Zoom	\$5,000
Cash collected for equipment rentals	\$23,540
Cash collected for crane technician services	\$4,280
Cash received in advance for a February crane booking (no technician services required for on the booking)	\$1,500

Cash Disbursements:

Cheque #1 – paid to StoreAnything for January and February rent for the place at which the equipment was kept when not at a filming location	\$1,000
Cheque #2 – paid to ProtectIt Insurance – the premium for 24 months effective January 1st	\$2,000
Cheque #3 – paid to TowIt on January 15 th for transporting the crane to filming locations for the first half of January	\$500
Cheque #4 – Pan Zoom's withdrawal from the business on January 25 th	\$6,000

Other Information:

1. The Receiver General is owed the GST included in equipment rentals and crane technician services fees was \$1,820 (7% of \$22,000 and \$4,000 respectively). Ignore the GST on purchases and on the advance for a February crane booking.
2. TowIt is owed \$700 for transporting the crane to filming locations for the last half of January.
3. The bank statement shows a balance of \$30,800: cheque #4 did not clear in January and the bank charged service charges of \$20 for January.

14. HighAction should report Current Liabilities on its January 31st Balance Sheet totaling
- a) \$1,820
 - b) \$2,520
 - c) \$4,320
 - d) more than \$6,000 but less than \$100,000
 - e) none of the above
15. HighAction should report Cash on its January 31st Balance Sheet of
- a) \$36,800
 - b) \$30,800
 - c) \$24,820
 - d) \$24,800
 - e) none of the above
16. HighAction should report on its Income Statement for January, Revenue, net of GST of
- a) \$29,320
 - b) \$27,820
 - c) \$27,500
 - d) \$26,000
 - e) none of the above
17. If HighAction were to record an insurance expense of \$2,000 for January
- a) the trial balance would not balance
 - b) the company would be adopting an accrual basis of accounting
 - c) the company would be creating a reserve it could draw on to inflate earnings in future accounting periods
 - d) its assets would be understated and its expenses overstated
 - e) none of the above
18. If HighAction were to engage an accountant to set-up an accounting system, and the accountant did so at January 31st, HighAction's chart of accounts would
- a) show debits equal to credits
 - b) include an Income Tax Expense account
 - c) have more than 10 accounts
 - d) be prepared by the holder of its Note Payable
 - e) none of the above
19. On its January 31st Balance Sheet, HighAction should report the equipment with a net value of
- a) \$180,000
 - b) \$181,800
 - c) \$177,000
 - d) \$178,770

e) none of the above

20. On its January 31st Balance Sheet, High Action would report Owner's Equity with a

- a) debit balance
- b) credit balance
- c) as Shareholder's Equity
- d) as Due to the Note Payable holder
- e) none of the above

----- end of HighAction questions -----

21. Luca Pacioli, the mathematician, a scholar who is sometimes called the 'father of accounting'
- a) suggested the cash flow statement as part of annual financial statements
 - b) began the first Society of Professional Accountants
 - c) wrote about double-entry bookkeeping in the 1500s
 - d) all of the above
 - e) none of the above
22. Notes that accompany financial statements
- a) describe accounting methods followed
 - b) describe business risks
 - c) are cross-referenced to the financial statements
 - d) all of the above
 - e) none of the above
23. A list of a corporation's Directors and Officers would most likely be found in
- a) The letter from the President to the shareholders
 - b) Management's Discussion and Analysis
 - c) The Audit Report
 - d) The Annual Report
 - e) None of the above
24. The assumption that activities of a business can be divided into artificial time periods during which revenues and expenses can be estimated and matched for income determination is called the
- a) matching assumption
 - b) divisibility assumption
 - c) time period assumption
 - d) chunking assumption
 - e) none of the above

25. When accrual financial statements are prepared manually, the order in which they are most easily prepared is
- statement of owner's equity first, income statement last
 - income statement first, balance sheet last
 - balance sheet first, income statement last
 - cash flow statement first, income statement last
 - in a different order
26. Which of the following is NOT an example of a deferred cost?
- Equipment
 - Accounts Receivable
 - Prepaid Rent
 - Inventory
 - All of the above are examples of deferred costs

Use the following information to answer questions 27 to 31:

The StepRight 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 StepRight has ever received from its supplier are identical, the cost charged by the supplier has been increasing over time. The following information has been extracted from the records of StepRight Co.:

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

27. Given the information for StepRight, if StepRight uses the FIFO cost flow assumption and a perpetual bookkeeping method, the cost of goods sold for January, is
- \$34,000
 - \$35,100
 - \$33,200
 - \$32,500
 - none of the above
28. Given the information for StepRight, if StepRight uses the LIFO cost flow assumption and a periodic bookkeeping method, the cost of goods sold for January, is
- \$34,000
 - \$35,100
 - \$33,200
 - \$32,500
 - none of the above
29. Given the information for StepRight, if StepRight uses a perpetual bookkeeping 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) overstate inventory and net income
- b) understate inventory and net income
- c) overstate inventory and understate net income
- d) understate inventory and overstate net income
- e) none of the above

30. Given the information for StepRight, 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

- a) StepRight must use the LIFO cost flow assumption
- b) StepRight would be violating the matching principle if it were to use a weighted average cost flow assumption
- c) both (a) and (b) above
- d) none of the above

31. Given the information for StepRight, StepRight would not likely use the specific identification method because

- a) the pedometer readings would change as the pedometers are moved throughout the warehouse
- b) the specific identification method is only used when the product has a limited shelf life and will expire
- c) the facts given did not say the cost price is stamped on the pedometers
- d) the cost of uniquely identifying the pedometers would likely make use of the method too expensive
- e) none of the above

----- end of StepRight questions -----

32. IOUs are

- a) Promises to pay
- b) NSF cheques
- c) Classified as Accounts Receivable
- d) (a) and (c) above
- e) None of the above

33. Choose the phrase that best completes the following sentence. A firm's _____ are all those authorized to draw cheques or authorize electronic debits.

- a) Signing officers
- b) Board of Directors

- c) Auditors
- d) Management
- e) None of the above

34. When preparing a bank reconciliation, which of the following would best explain why the 'balance per the bank statement' is higher than the 'balance per the books'?

- a) An outstanding cheque
- b) An outstanding deposit
- c) A bank service charge that has not yet been recorded by the business
- d) A charge by the bank for an NSF cheque that has not yet been reflected on the depositor's books
- e) None of the above

35. The accounts receivable method that estimates the amount of uncollectible accounts expense that will eventually result from a period's sales in order to reflect the expense during the same period is called

- a) the direct write-off method
- b) the allowance method
- c) the estimation method
- d) the periodicity method
- e) none of the above

Use the following information for Questions 36 - 44

(You may remove this page from this booklet if it makes your work easier – a blank page has been provided at the end of the examination for rough work).

GrowFast Ltd. sells an indoor organic plant fertilizer designed especially for the cool, dark Canadian winters. The trial balance prepared by GrowFast at the end of its first month of operations is presented below, together with information about its second month of operation.

Trial Balance at January 31

	Dr	Cr
Cash	1,000	
Accounts Receivable	7,500	
Allowance for Uncollectible Accounts		1,500
Inventory	8,000	
Prepaid Rent	5,500	
Accounts Payable		1,700
Advances from Customers		800
Common Shares		16,000
Dividends	4,000	
Revenue		20,000
Cost of Goods Sold	10,000	
Rent Expense	500	
Uncollectible Account Expense	1,500	
Income Tax Expense	2,000	
	40,000	40,000

Additional information:

- All required adjusting entries were made before the January 31st trial balance was prepared.
- Financial statements are prepared monthly.
- GrowFast Ltd. purchases its fertilizer from Organic Dirt. The unit cost charged by Organic Dirt for each bottle, and the unit selling price that GrowFast charges its customers, remained the same throughout January and February.
- GrowFast purchases the fertilizer for \$2 per bottle from Organic Dirt and resells the product for \$4 each
- In February, 2,500 bottles were received from Organic Dirt
- In February GrowFast paid Organic Dirt \$3,000
- In February 3,000 bottles were shipped to customers – 200 bottles to the customers who had paid in Advance in January and 2,800 bottles to other customers.
- In February, \$8,500 was collected from customers: \$8,000 from customers paying on account and \$500 from customers paying in advance for bottles to be delivered in March.
- In February \$900 of specific Accounts Receivable were written-off.
- At February 28th it was estimated that \$1,300 of the amount owed by customers would not be collected.
- Rent for GrowFast's premises was prepaid for a year on January 1st.
- No other cash disbursements or receipts occurred in February.

- GrowFast computed, income taxes on profits at 25%
36. Given the information for GrowFast,
- a) GrowFast is a proprietorship
 - b) GrowFast would report Retained Earnings of \$2,000 on its January 31st balance sheet
 - c) GrowFast would pay \$4,000 in Dividends to Shareholders in February
 - d) GrowFast would repay the \$16,000 loaned by Shareholders in February
 - e) none of the above
37. Given the information for GrowFast, in January GrowFast purchased
- a) 4,000 bottles of fertilizer
 - b) 6,000 bottles of fertilizer
 - c) 8,000 bottles of fertilizer
 - d) 9,000 bottles of fertilizer
 - e) none of the above
38. Given the information for GrowFast, at February 28th, the Prepaid Rent should be
- a) \$5,500
 - b) \$500
 - c) \$5,000
 - d) \$1,000
 - e) none of the above
39. Given the information for GrowFast, the Uncollectible Account Expense for February is
- a) \$900
 - b) \$800
 - c) \$700
 - d) \$1,400
 - e) none of the above

40. Given the information for GrowFast, the balance in the Accounts Receivable account at February 28th should be
- a) \$19,500
 - b) \$11,500
 - c) \$10,700
 - d) \$9,800
 - e) none of the above
41. Given the information for GrowFast, the balance in the Inventory account at February 28th should be
- a) \$13,000
 - b) \$8,000
 - c) \$2,000
 - d) \$7,000
 - e) none of the above
42. Given the information for GrowFast, the Gross Profit for February should be
- a) \$11,200
 - b) \$5,200
 - c) \$6,000
 - d) \$5,500
 - e) none of the above

43. Given the information for GrowFast, at February 28th GrowFast's liabilities, other than for income taxes (i.e., ignore income taxes on February profits) total
- a) \$3,700
 - b) \$4,200
 - c) \$5,000
 - d) \$7,500
 - e) none of the above
44. Given the information for GrowFast, the payment to Organic Dirt in February is
- a) an operating cash flow
 - b) an investing cash flow
 - c) a financing cash flow
 - d) none of the above

----- *end of GrowFast questions* -----

45. Banana River Clothing Corp. has assets of \$60,000 and liabilities of \$48,000. If Banana River issues an additional \$6,000 worth of its common shares for cash, what will be the balance in Shareholders' Equity following this transaction?
- a) \$60,000
 - b) \$54,000
 - c) \$18,000
 - d) \$66,000
 - e) none of the above
46. Reconciling accounting records to the underlying asset and liabilities in a step in the accounting cycle of
- a) a manual accounting system
 - b) a computerized accounting system
 - c) both manual and computerized accounting systems
 - d) neither manual nor computerized accounting systems
47. Your 2500 accounting instructor is:
- a) sage
 - b) witty
 - c) totally awesome
 - d) all of the above
 - e) none of the above
48. In preparing its 2005 adjusting entries, Sports Magazine Ltd. neglected to adjust Prepaid Advertising for the amount of magazine advertising published during 2005. As a result of this error:
- a) 2005 net income is understated, the balance in Retained Earnings is understated and assets are understated

- b) 2005 net income is overstated, the balance in Retained Earnings is overstated and assets are correctly stated
 - c) 2005 net income is overstated, the balance in Retained Earnings is overstated and assets are overstated
 - d) none of the above
49. The amount income tax on a warehouse employee's earning withheld at source in April and remitted to the government in May is
- a) recorded as part of Wage Expense in April
 - b) recorded as part of Income Tax Expense in April
 - c) recorded as part of Wage Expense in May
 - d) recorded as part of Income Tax Expense in May
 - e) none of the above
50. The SnowyDays Company had Accounts Receivable of \$125,000 and an Allowance for Uncollectible Accounts with a credit balance of \$10,000 just prior to writing off the \$1,500 account of the Shovel Company. The net realizable value of SnowyDays accounts receivable before and after the write-off of Shovel's account was
- a) \$115,000 before; \$115,000 after
 - b) \$115,000 before; \$113,500 after
 - c) \$125,000 before; \$123,500 after
 - d) \$135,000 before; \$133,500 after
 - e) none of the above