

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

Time: 3 hours

Questions: 33

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. 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:

- ❖ **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. However, such questions are kept to an absolute minimum. Most questions stand alone.
- ❖ **In** 2500, invigilators answer no questions of interpretation.
- ❖ **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.

The Godfather

Michael Corleone was a student at York University enrolled in the BAS degree and planning to major in accounting.

Michael was an idealist and wanted to change the world for the better. He had originally thought about becoming a corporate executive and becoming rich enough like Bill Gates to set up a charitable foundation that could make a real impact. However, a summer job at Walmart threw cold water on that dream. It was very clear that the road to becoming president of a company was very uncertain and the road to becoming a billionaire was about as certain as the road to winning a lottery. Michael next thought about politics as the route to effect real change. Maybe he would get a law degree and run for public office. As Prime Minister of Canada he could have an impact. However, the more he studied the news the more he realized that although most people first entered public office with the same idealism as himself; years as a backbencher and toeing the party line to get a cabinet post and then courting lobbyists and

special interest groups to get power always seemed to lead to corruption and loss of idealism. He thought about medical school and finding a cure for cancer was enough of a realist to know that his poorest grades were in science and he was not cut out for that field. Michael was indeed discouraged.

This discouragement turned into hope one sunny afternoon when he made his annual visit to see his godfather Vito Don Corleone. Vito Corleone was over 80 years old and was the patriarch of the Corleone family. He had made a tidy sum importing olive oil from Europe before branching into other interests (none of which had ever been revealed to Michael). Vito was now retired and spent most of his days rocking on the veranda and tending his grape vines in the garden. Vito was actually Michael's grandfather but long ago when the Mario Puzzo novel of the same name was popular the family affectionately gave him the name "godfather". It was indeed a remarkable coincidence that he had the same name as the central protagonist in the book, both made their start in the olive oil business and both spent their waning years tending vines.

One sunny afternoon the two of them sat rocking on the porch veranda sipping a fine pinot noir while the sun played tag with the fluffy white clouds. It was a hot day yet a gentle breeze made the ambiance delightful.

"Godfather, I don't know what to do. I want to become important enough to change the world but all the doors seem closed. How should I plan my life to become someone who can make a difference?"

Vito Corleone seldom spoke without reflection and refilling his glass. For some time he stared at his grandson then set his glass down and took him by the shoulder.

"Michael, Michael Michael...I am proud you want to do something with your life. I agree the paths of business and politics are rocky and will corrupt your ideals. I will tell you a way to change the world and make it a better world"

Vito leaned over and whispered a single word into Michael's ear..... *"accounting"*

Michael was so surprised he spilled the red wine down the front of his crisp white polyester-cotton Giorgio Armani suit.

"What do you mean Godfather? How is accounting going to change the world?"

The old man sighed and replied

"Look about you my son....the housing bubble, the banking scandal, the euro crisis. If you look behind the headlines you will see that almost all of the economic disasters that face the world today are caused by accounting failures....failures to keep good books and failures to disclose the real events. What we need more than anything is an overhaul in the way records are kept. You can become a professional accountant with certainty. You can be a leader in your profession with some certainty. You can renounce the search for personal wealth and volunteer your time to the standard setting process and there is a reasonable expectation you could one day be president of the international accounting federation. From that post you could initiate change that could shake the foundations of the corporate world. My son it is as a simple accountant you will achieve your dream"

It was as if a great weight had fallen from his shoulders and Michael was seeing the bees flitting about the garden for the first time.

"You are indeed right Godfather. Thank you"

With that he kissed his grandfather's hand said farewell and rushed off to enroll in the School of Administrative Studies program.

It was now some months later and Michael was again sitting on his grandfather's veranda. This time he had the foresight to ask for white wine and wore a sweat shirt from Old Navy

"Godfather I am discouraged. I am taking the introductory financial accounting course and can't seem to get my head around it. The first midterm is approaching and I am worried about even passing. Getting an A just seems impossible. I am so discouraged"

The old man asked him a few questions about his study habits and sighed.

"Your problem is a simple one my son. You are just going through the motions. Your study consists of memorization not understanding. Learning only comes through understanding"

Michael looked at him with tears welling in his eyes.

“Show me the right way grandfather. I will follow your advice”

Vito replied.

“Real life is not predictable. It is not a script written in advance. There are deviations at every turn. What you must do is to work on accounting problems that are not just blatant copies of classroom exercises. I have never told you this and I have always told the family to never ask me about my business but the other interests outside the olive oil importing business I worked as supply teacher in accounting and there I learned the secret of learning. Let me give you an example. The standard accounting question gives you a transaction and asks for the journal entry. If you instead looked at a question that gives the journal entry or part of it and asks what was the transaction, or half of a journal entry and what was the other half, this accelerates learning. Let me give you some examples Michael. I still have my teaching notes from many years ago and they are right here in this old satchel. Let me read some questions to you”

- (1) If a journal entry had a debit to Cost of Goods Sold what would be the most likely credit if a company used a periodic inventory system and a physical count had just been performed:
 - a. Sales
 - b. Inventory
 - c. Cash
 - d. Freight In
 - e. None of the above

- (2) If there was a debit to Accounts receivable the most likely credit is to:
 - a. Cash
 - b. Bad debt expense
 - c. Sales
 - d. Owners equity
 - e. None of the above

- (3) If there was a credit to Accounts Receivable then the most likely debit is to:
 - a. Cash
 - b. Accounts receivable
 - c. Sales
 - d. Revenue received in advance
 - e. None of the above

- (4) If there was a debit to Accounts Payable then the most likely credit is to:
 - a. Purchases
 - b. Supplies Expense
 - c. Interest Expense
 - d. Accounts Receivable
 - e. None of the above

- (5) If there is a credit to accounts payable then the most likely debit is to:
 - a. Cash
 - b. Purchases
 - c. Purchase Returns and Allowances
 - d. Interest Expense
 - e. None of the above

- (6) If there is a credit to accumulated depreciation then the most likely credit is to:
 - a. Depreciation expense
 - b. Machinery and Equipment

- c. Prepaid Depreciation
- d. Cash
- e. None of the above

(7) If there is a debit to Retained Earnings then the most likely credit goes to:

- a. Net Income
- b. Capital Stock
- c. Drawings
- d. Cash
- e. None of the above

(8) If there is a credit to Prepaid Insurance then the most likely debit is to:

- a. Cash
- b. Allowance for Accumulated Insurance
- c. Cost of Goods Sold
- d. Prepaid Insurance
- e. None of the above

“Those are great questions Godfather. I see what you are getting at. What would be another example of a thinking question?”

Vito thought for a minute and responded. *“ Well we often use accounting equations to solve for the same thing. For instance the straight line depreciation equation normally solves for the expense. What if you were given the expense and asked to solve for something else. For instance,”*

(9) If machine A cost \$13,000, had accumulated depreciation of \$4,000 at the end of year after all adjustments and was being depreciated over ten years with no expectation of salvage then how old do you think the machine is at the end of that particular year?

- a. 2 years
- b. 3 years
- c. 4 years
- d. 5 years
- e. some other age

(10) Or if machine B is depreciated on the straight line basis, has accumulated depreciation recorded of \$6,000 after year end adjustments, has depreciation of \$2,000 per year and an estimated salvage value of \$1,000 then it was acquired:

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

“Great questions” said Michael, “lets hear some more”

“Well another great test of thinking is looking at the effect of errors” said Vito. For instance:

(11) If too much depreciation expense on a truck was taken in a given year then net income for that year would be:

- a. Understated
- b. Overstated

- c. The right amount
- (12) If accrued interest was not calculated on a note receivable at year end then net income would be:
- Overstated
 - Understated
 - The right amount
- (13) If the firm forgot to book the entry to record dividends paid out during the year then net income would be:
- Understated
 - Overstated
 - The right amount
- (14) A one year insurance policy costing \$1,200 was incorrectly charged to interest expense. Net income for that year would be:
- Understated
 - Overstated
 - The right amount
- (15) A cheque for \$900 was received from a customer during December year 5 for merchandise to be delivered in year 6. Sales revenue was debited when the cheque was received and cash was credited. Net income for year 5 would be:
- Understated
 - Overstated
 - The right amount

“Yummy God father” said Michael “ I like those a lot. What else will make me think?”

“Well one of my favourites is constructing financial statements from incomplete data” said Vito. “ but to do this type of question you have to set up a set of T accounts and make sure everything is properly handled. The trick is not to let the problem seem more complex than it really is. Lets assume we had the following information about a company called Easy Pickens”

- The firm prepares monthly financial statements
- In October the bookkeeper ran off with the security guard and took the general ledger with her. She also removed all the cash from the cash register. However, the source documents were still on hand, so the following information about October was revealed
- The bank balance at October 31 was \$5,730 so it appeared the amount of cash stolen was \$1,200
- The amount payable to creditors Oct 31 was \$4,720
- The Owners equity at the beginning of the month was \$15,000 and \$17,500 at month end
- Cost of merchandise on hand Oct 31 was \$11,380
- A one year fire insurance policy had been purchased Sept 1 for \$900
- Office furniture was being rented from the Brick for \$200 a month. October’s fee had not been paid as at Oct 31
- A customer bought merchandise in October and gave the company a note receivable for \$1,200. At Oct 31 the unpaid accrued interest was \$45
- Other customers bought merchandise on credit and at Oct 31 owed Easy Pickens \$1,915.
- Easy Pickens purchased its annual business licence from the city on July 1 paying \$300

*“So Michael...lets say you were asked to prepare a balance sheet for Easy Pickens showing all balances immediately **before** the theft. You would show”*

- (16) Cash of
- \$1,200
 - \$5,730
 - \$6,930
 - \$7,110
 - Some other amount
- (17) Total Receivables (Notes and regular trade receivables)
- \$1,915
 - \$2545
 - \$3,115
 - \$4,050
 - Some other amount
- (18) Prepaid Licenses
- \$100
 - \$200
 - \$300
 - \$0
 - Some other amount
- (19) Prepaid Insurance
- \$900
 - \$850
 - \$800
 - \$750
 - Some other amount
- (20) Total current liabilities
- \$4,720
 - \$200
 - \$5,000
 - \$5,150
 - Some other amount
- (21) Owner's Equity
- \$15,000
 - \$16,200
 - \$17,500
 - \$18,000
 - Some other amount

‘Awesome questions Godfather, my brain is starting to hurt already. What’s next?’

“Well another good test of memorization versus understanding is to give a question asking the differences between the accrual and the cash paradigm. For instance lets say we have a company called Ducolux which has the following data”

- It opened its doors for business on January 1 Year 1 with the owner investing \$10,000 of his own funds and borrowing another \$8,000 from the bank.

- The loan plus interest is payable on June 30 of Year 1 with interest charged at 9 percent per year.
- A building was rented January 1 and two months rent was paid in advance totaling \$2,000.
- Insurance coverage was also purchased Jan one to last the year and it cost \$1,200.
- Merchandise inventory costing \$28,000 was bought on account on January 2 and suppliers were paid \$10,000 of this amount on January 25.
- The cost of merchandise still on hand January 31 was \$15,000
- During January cash sales to customers were \$20,000 and sales on account were \$9,000. Of these sales on account, \$2,000 had been collected by January 31.
- Other costs incurred and paid during January were utilities of \$400, salaries of \$650 and taxes of \$350

(22) Accrual sales for January are:

- a. \$25,000
- b. \$27,000
- c. \$29,000
- d. \$31,000
- e. Some other amount

(23) Cash basis sales for January are:

- a. \$25,000
- b. \$27,000
- c. \$29,000
- d. \$31,000
- e. Some other amount

(24) Cost of Goods Sold under accrual accounting is:

- a. \$10,000
- b. \$13,000
- c. \$23,000
- d. \$30,000
- e. Some other amount

(25) Cost of merchandise paid for under the cash basis is:

- a. \$10,000
- b. \$13,000
- c. \$23,000
- d. \$30,000
- e. Some other amount

(26) Operating expenses (other than interest) under the accrual model are:

- a. \$2,300
- b. \$2,500
- c. \$2,700
- d. \$2,900
- e. Some other amount

(27) Cash basis operating expenses (excluding interest) are:

- a. \$4,600
- b. \$4,700

- c. \$4,800
- d. \$4,900
- e. Some other amount

- (28) Net income under the accrual method is:
- a. Higher than the cash basis income
 - b. Lower than the cash basis income
 - c. The same as the cash basis income

“Wow Godfather, with questions like that I can really be prepared for the 2500 exam. Is that all you got?”
 “Well I have one more problem here in the satchel Michael. If you can do this one and the previous ones then I am sure you have what it takes to major in accounting, get your designation and indeed change the world. This problem gives you a trial balance and asks you to recreate what the cash receipts and disbursements were for the year. The key to doing a problem like this is not to lose your head. If you set up the T accounts, put in the balances and remember that every account can be expressed as an equation where opening balance + additions – deductions = ending balance then the problem is not that hard. I suggest you analyze the revenue and expense accounts first. Also be aware that the ending trial balance contains adjustments but is pre-closing so Retained Earnings has not been updated for the current year’s income. Also it looks like the firm paid dividends of \$10,000 for the year. You also might want to set up a separate T account called Income Summary to close all the revenue and expense accounts to so you have a single number to transfer to retained earnings for the year’s income”

Secunda Company
Comparative Trial Balances (start and end of year)

	Dec 31	Jan 1
Debits		
Cash	\$9,000	\$20,000
Accounts Receivable	51,000	36,000
Inventory	60,000	45,000
Prepayments	1,000	2,000
Land Buildings and Equipment	40,000	40,000
Cost of goods sold	50,000	-
Interest expense	3,000	-
Other operating expenses	29,000	-
Total debits	\$243,000	\$143,000
Credits		
Accumulated depreciation	\$18,000	\$16,000
Interest payable	2,000	1,000
Accounts Payable	40,000	30,000
Mortgage Payable	17,000	20,000
Capital Stock	50,000	50,000
Retained Earnings	16,000	26,000
Sales	100,000	-
Total credits	\$243,000	\$143,000

- (29) Collections from customers during the year are
- a. \$70,000

- b. \$75,000
 - c. \$80,000
 - d. \$85,000
 - e. Some other amount
- (30) Payments to suppliers during the year are
- a. \$79,000
 - b. \$81,000
 - c. \$83,000
 - d. \$85,000
 - e. Some other amount
- (31) Payments to the mortgage company (excluding interest) are:
- a. \$1,000
 - b. \$2,000
 - c. \$3,000
 - d. \$4,000
 - e. Some other amount
- (32) Cash paid for dividends during the year is
- a. \$0
 - b. \$5,000
 - c. \$10,000
 - d. \$15,000
 - e. Some other amount
- (33) The change in the cash balance for the year is:
- a. \$0
 - b. \$9,000
 - c. \$11,000
 - d. \$20,000
 - e. Some other amount

REQUIRED: Assume the role of Michael and answer the previous 33 questions (recording your choices on the pink computer mark sense form.