

York University AP/ADMS 2500.03
Introduction to Financial Accounting
Midterm Examination #1 – Test Forms A&B

Time: 3 hours

Winter 2016

Questions: 50

PART 1: *Lady Leaf and her “Tea experience” business*

(Questions 1 to 36 are based on this case. All questions are equal weighted)

Johanna Strauss had worked for more than 25 years as the executive assistant of top managers in large Canadian corporations. After retirement she decided to go on a trip around the world until she gets bored or drops dead. After 20 months in her ‘voyage’ Johanna decided to return to Toronto due to a complicated health condition. After the initial treatment was completed Johanna needed to have regular check ups and not being confident in herself as before she decided to stay in Toronto all the time. Johanna has been always extremely active and in this new stage of her life she couldn’t sit still. At this stage she was not interested in working for others as her health made her not very reliable, so she decided to start her own business with a passion she discovered in her ‘voyage’: prepare and serve tea as it should be done. Her target market or audiences are selected meetings organized by top executives or their partners in their houses.

On January 1st 2016 Johanna or Lady Leaf as she wanted to be called set up a company to formalize the tea service she has been experiencing with her friends and acquaintances. A friend help her to prepare a business plan that was ready to be presented at her friend’s bank so she can get some extra financing if needed, in the meantime this friend was so sure about Johanna’s idea that decided to lend her \$10,000 for 5 years with an interest rate of 3% per year. On January 2nd Johanna sets up her company: Tea Experience with a capital of 10,000 shares valued at \$5 each. A lawyer produced all the needed paperwork.

On January 3rd Johanna opens a bank account under the name of Tea Experience Corp. depositing the \$10,000 from her plus the \$10,000 loaned by her friend. On January 4th Johanna transfers ownership of her sets of tea equipment to the company. All of her tea equipment is high end while one is very rare and exclusive. The equipment has a fair market value of \$7,500 and is estimated to last for 5 years and then, if not broken, can be sold for \$1,500. She also made sure to transfer the insurance contract for her tea equipment from her to the company as well, the contract started on October 1st 2015. The insurance premium is \$900 per year and it was paid in full when signed on October 1st 2015. On the same day Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

The following is a list of transactions that occurred during the first month of operations of “Tea Experience Corp”:

January	Description
4	Completed the purchase of an exquisite wood box fitted to carry and maintain intact the quality of tea leaves for \$3,000. The box, which will be paid in full on January 5 th 2017, will be used during 5 full years with no resale value at the end
5	Completed the purchase of an exquisite selection of tea leaves and mixtures for \$2,000. 50% was paid in cash, the other 50% will be paid in 30 days.
7	Great start of business serving several events for a large and well known international charity. Got a cheque for \$3,000 for her services and \$2,000 in account to be collected on Jan 31 st .
7	Paid \$400 of transportation to the ride sharing service.
15	Hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20 th and promised to pay the rest (\$700) on February 20 th .
20	Provided her services for two small events. One promised to pay \$500 of February 10 th , while the other will pay the \$500 by the end of February
20	Provided services in an afternoon event at a local church. Johanna collected \$200 for all her services.
20	Paid \$100 of transportation to the ride sharing service.
23	Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25 th
23	Ordered 300 personal cards and 100 brochures. Total paid for the rush order is \$500 (\$1 each personal card and \$2 each brochure). Johanna will start distributing them at the high end event of January 25 th
25	One big event was serviced. The bill of \$4,000 was paid 50% before the beginning of the event and the rest in 30 days. Johanna was able to distribute 100 personal cards and 20 brochures.
27	Small event was serviced collecting \$500 in cash for all fees at the end of the event.
29	Received the bill from the lawyer that helped her to set up the company for \$900 payable by February 15 th .
30	Received a deposit of \$800 for servicing a mid afternoon get together on February 29 th . The group wanted to reserve the date to do something special in her house as it only happens once every 4 years.
31	Having consumed 75% of the tea at hand she purchases on account more tea for \$1,000.
	Additional information
31	The online bank statement for the month of January shows bank fees of \$25
31	The phone bill for \$120 was received for the month of January, the payment is due on February 9 th
31	Johanna does not collect \$2,000 from a service provided on Jan 7th
31	Having cash at the bank decided to pay off all tea purchases

Comment [e1]: This changes to 100% for topic B

Comment [e2]: This is eliminated for Topic B.

Prepare “T” Accounts in Accrual Basis for “Tea Experience” and then answer the questions.

Questions on TEA EXPERIENCE Case

This Section Questions 1-23 ONLY APPLIES TO ACCRUAL ACCOUNTING for “TEA EXPERIENCE” for the date ending January 31st:

- A1). What was the Cash balance at the end of the January 31 (after AJE)?**
- A). less than \$10,000
 - B). between \$10,001 and \$18,000
 - C). between \$18,001 and \$24,000
 - D). between \$24,001 and \$30,000
 - E). more than \$30,000
- B7). What was the Cash balance at the end of the January 31 (after AJE)?**
- A). less than \$10,000
 - B). between \$10,001 and \$18,000
 - C). between \$18,001 and \$24,000
 - D). between \$24,001 and \$30,000
 - E). more than \$30,000
- A2). What is the amount of Accounts Receivables at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$1,000
 - C). between \$1,001 and \$3,000
 - D). between \$3,001 and \$5,000
 - E). more than \$5,000
- A3). What is the amount of Inventory at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$1,000
 - C). between \$1,001 and \$2,000
 - D). between \$2,001 and \$3,000
 - E). more than \$3,000
- B8). What is the amount of Organizational Costs at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$100
 - C). between \$101 and \$800
 - D). between \$801 and \$1,000
 - E). more than \$1,000

B9). What is the amount of Prepaid Advertising at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$300
- C). between \$301 and \$450
- D). between \$451 and \$500
- E). more than \$500

A4). What is the amount of Prepaid Insurance at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$200
- C). between \$201 and \$400
- D). between \$401 and \$600
- E). more than \$600

B10). What is the balance of the account Tea Equipment as reported in the Balance Sheet Statement at the end of January 31 (after AJE)? Note: Consider that Tea Equipment account includes also the wooden box.

- A). \$0
- B). between \$1 and \$3,400
- C). between \$3,401 and \$7,400
- D). between \$7,401 and \$10,400
- E). more than \$10,400

A5). What is the net book value of Tea Equipment at the end of January 31 (after AJE)? Note: Consider that Tea Equipment account includes also the wooden box.

- A). \$0
- B). between \$1 and \$3,400
- C). between \$3,401 and \$7,400
- D). between \$7,401 and \$10,400
- E). more than \$10,400

B11). What is the amount of unearned revenues or advances from customers at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$250
- C). between \$251 and \$500
- D). between \$501 and \$750
- E). more than \$750

A6). What is the amount of Accounts Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B12). What is the amount of Accounts Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A7). What is the amount of Equipment Payable (wooden box) at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B13). What is the amount of Interest Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$10
- C). between \$11 and \$20
- D). between \$20 and \$30
- E). more than \$30

A8). What is the amount of Loan Payable (long term) at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$5,000
- C). between \$5,001 and \$10,000
- D). between \$10,001 and \$15,000
- E). more than \$15,000

B14). What is the amount of Organizational Costs Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A9). What is the amount of Phone Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A10). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$8,000
- D). between \$8,001 and \$10,000
- E). more than \$10,000

B15). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$8,000
- D). between \$8,001 and \$10,000
- E). more than \$10,000

B16). What is the amount of Advertising Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A11). What is the amount of Bank Fees Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A12). What is the amount of Cost of Goods Sold at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000
- D). between \$1,001 and \$1,500
- E). more than \$1,500

B17). What is the amount of Cost of Goods Sold at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000
- D). between \$1,001 and \$1,500
- E). more than \$1,500

B18). What is the amount of Depreciation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A13). What is the amount of Expense on Equipment at the end of January 31 (after AJE)? Note: this is not related with depreciation, this account captures money added to equipment that does not qualify as improvements, therefore they cannot be depreciated.

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000
- D). between \$1,001 and \$1,500
- E). more than \$1,500

B19). What is the amount of Insurance Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A14). What is the amount of Interest Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B20). What is the amount of Phone Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A15). What is the balance of Purchases at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B21). What is the balance of Purchases at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A16). What is the amount of Selling Expenses at the end of January 31 (after AJE)? Note: selling expenses include all cash outflows or promises to pay for goods or services that will only help to improve the marketing or selling strategy of the Tea Experience services

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B22). What is the amount of Transportation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$100
- C). between \$101 and \$200
- D). between \$201 and \$300
- E). more than \$300

A17). What is the Total of all Assets at the end of January as reported in the Balance Sheet?

- A). less than \$30,000
- B). between \$30,001 and \$38,100
- C). between \$38,101 and \$41,200
- D). between \$41,201 and \$42,300
- E). more than \$42,300

A18). What is the Total of all Liabilities at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$13,100
- C). between \$13,101 and \$15,200
- D). between \$15,201 and \$16,300
- E). more than \$16,300

A19). What is the Total of Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$18,100
- C). between \$18,101 and \$21,200
- D). between \$21,201 and \$22,300
- E). more than \$22,300

A20). What is the Total of Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A21). What is the Total of Non Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A22). What is the total of the account Owners Equity reported in the balance sheet at the end January?

- A). less than \$10,000
- B). between \$10,001 and \$18,100
- C). between \$18,101 and \$21,200
- D). between \$21,201 and \$22,300
- E). more than \$22,300

A23). What is the total of the account Retained Earnings reported in the Balance Sheet at the end January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$4,000
- D). between \$4,001 and \$6,000
- E). more than \$6,000

B23). What is the total of the account Retained Earnings reported in the Balance Sheet at the end January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$4,000
- D). between \$4,001 and \$6,000
- E). more than \$6,000

B24). How much is the Net Income reported in the Income Statement for the month of January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$5,000
- D). between \$5,001 and \$7,000
- E). more than \$7,000

B25). What is the Total of Non Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$18,100
- C). between \$18,101 and \$21,200
- D). between \$21,201 and \$22,300
- E). more than \$22,300

B26). What is the Total of Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B27). What is the Total of Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$20,000
- B). between \$20,001 and \$28,100
- C). between \$28,101 and \$31,200
- D). between \$31,201 and \$32,300
- E). more than \$32,300

B28). What is the Total of all Liabilities at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$13,100
- C). between \$13,101 and \$15,200
- D). between \$15,201 and \$16,300
- E). more than \$16,300

B29). What is the Total of all Assets at the end of January as reported in the Balance Sheet?

- A). less than \$30,000
- B). between \$30,001 and \$38,100
- C). between \$38,101 and \$41,200
- D). between \$41,201 and \$42,200
- E). more than \$42,200

This Section Question 24-30 ONLY APPLIES TO CASH BASIS ACCOUNTING for “Tea Experience” for the date ending January 31:

A24). What was the Cash balance at the end of the January 31 (after AJE)?

- A). less than \$10,000
- B). between \$10,001 and \$18,000
- C). between \$18,001 and \$24,000
- D). between \$24,001 and \$30,000
- E). more than \$30,000

B30). What was the Cash balance at the end of the January 31 (after AJE)?

- A). less than \$10,000
- B). between \$10,001 and \$18,000
- C). between \$18,001 and \$24,000
- D). between \$24,001 and \$30,000
- E). more than \$30,000

A25). What is the amount of Accounts Receivables at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$3,000
- D). between \$3,001 and \$5,000
- E). more than \$5,000

B31). What is the amount of Interest Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$10
- C). between \$11 and \$20
- D). between \$20 and \$30
- E). more than \$30

A26). What is the amount of Prepaid Advertising at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$300
- C). between \$301 and \$450
- D). between \$451 and \$500
- E). more than \$500

B32). What is the amount of Prepaid Insurance at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$200
- C). between \$201 and \$400
- D). between \$401 and \$600
- E). more than \$600

A27). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$6,000
- D). between \$6,001 and \$10,000
- E). more than \$10,000

A28). What is the sum of all expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$5,000
- D). between \$5,001 and \$8,000
- E). more than \$8,000

B33). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$6,000
- D). between \$6,001 and \$10,000
- E). more than \$10,000

B34). What is the sum of all expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$5,000
- D). between \$5,001 and \$8,000
- E). more than \$8,000

A29). What is the amount of Depreciation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B35). What is the amount of Insurance Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A30). What is the amount of Selling Expenses at the end of January 31 (after AJE)? Note: selling expenses include all cash outflows or promises to pay for goods or services that will only help to improve the marketing or selling strategy of the Tea Experience services

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B36). What is the amount of Transportation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$100
- C). between \$101 and \$200
- D). between \$201 and \$300
- E). more than \$300

This Section Question 31-36 ONLY APPLIES TO JOURNAL ENTRIES (accrual accounting) for “Tea Experience” for January:

Indicate which journal entry must be recorded for each of the following economic events on the exact day of the event:

A31). January 4. Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

- A). No journal entry
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100
- E). Not enough information given for this answer / None of the above

A32). On January 4th completed the purchase of an exquisite wood box fitted to carry and maintain intact the quality of tea leaves for \$3,000. The box, which will be paid in full on January 5th 2017, will be used during 5 full years with no resale value at the end.

- A). Dr Equipment \$3,000 and Cr Equipment Payable \$3,000 (current liability)
- B). Dr Equipment \$3,000 and Cr Equipment Payable \$3,000 (non current liability)
- C). Dr Equipment Expense \$3,000 and Cr. Accounts Payable \$3,000 (current liability)
- D). Dr Equipment Expense \$3,000 and Cr. Accounts Payable \$3,000 (non current liability)
- E). Not enough information given for this answer / None of the above

B1). On January 15th hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20th and promised to pay the rest (\$700) on February 20th.

- A). Dr Equipment \$1,000 Cr .Cash \$300 Cr Equipment Payable \$700
- B). Dr Equipment \$1,000 Cr Equipment Payable \$1,000
- C). Dr Equipment Expense and Cr. Cash \$300 Cr. Accounts Payable \$700
- D). Dr Equipment Expense and Cr. Accounts Payable \$1,000
- E). Not enough information given for this answer / None of the above

B2). January 30. Received a deposit of \$800 for servicing a mid afternoon get together on February 29th. The group wanted to reserve the date to do something special in her house as it only happens once every 4 years.

- A). No journal entry
- B). Dr Cash \$800 Cr Advances from customers \$800
- C). Dr Cash \$800 Cr Revenue \$800
- D). Dr Account Receivable \$800 Cr Unearned Revenue
- E). Not enough information given for this answer / None of the above

A33). January 23. Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25th

- A). No journal entry
- B). Dr Prepaid Services \$120 and Cr Cash \$120
- C). Dr Prepaid Services \$120 and Cr Accounts Payable \$120
- D). Dr Selling Expenses \$120 and Cr Cash \$120
- E). Not enough information given for this answer / None of the above

B3). January 31. Ordered 300 personal cards and 100 brochures. Total paid for the rush order is \$500 (\$1 each personal card and \$2 each brochure). Johanna will start distributing them at the high end event of January 25th

- A). No journal entry
- B). Dr Prepaid Advertising \$500 and Cr Cash \$500
- C). Dr Prepaid Advertising \$500 and Cr Accounts Payable \$500
- D). Dr Advertising Expense \$500 and Cr Cash \$500
- E). Not enough information given for this answer / None of the above

A34). January 20. Paid \$100 of transportation to the ride sharing service.

- A). No journal entry
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100
- E). Not enough information given for this answer / None of the above

A35). January 4 Johanna transfers the tea equipment has a fair market value of \$7,500 and is estimated to last for 5 years and then, if not broken, can be sold for \$1,500.

- A). No journal entry
- B). Dr Tea Equipment \$7,500 and Cr Cash \$7,500
- C). Dr Tea Equipment \$7,500 and Cr Owners Equity \$7,500
- D). Dr Tea Equipment \$6,000 and Cr Cash \$6,000
- E). Not enough information given for this answer / None of the above

B4). January 23. Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25th

- A). No journal entry
- B). Dr Prepaid Services \$120 and Cr Cash \$120
- C). Dr Prepaid Services \$120 and Cr Accounts Payable \$120
- D). Dr Selling Expenses \$120 and Cr Cash \$120
- E). Not enough information given for this answer / None of the above

B5). January 4. Johanna transfers the insurance contract for her tea equipment from her to the company as well, the contract started on October 1st 2015. The insurance premium is \$900 per year and it was paid in full when signed on October 1st 2015.

- A). No journal entry
- B). Dr Prepaid Insurance \$900 and Cr Cash \$900
- C). Dr Prepaid Insurance \$675 and Cr Cash \$675
- D). Dr Prepaid Insurance \$675 and Cr Owners Equity \$675
- E). Not enough information given for this answer / None of the above

B6). January 4. Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

- A). No journal entry
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100
- E). Not enough information given for this answer / None of the above

A36). On January 15th hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20th and promised to pay the rest (\$700) on February 20th.

- A). Dr Equipment \$1,000 Cr .Cash \$300 Cr Equipment Payable \$700
- B). Dr Equipment \$1,000 Cr Equipment Payable \$1,000
- C). Dr Equipment Expense \$1,000 and Cr. Cash \$300 Cr. Accounts Payable \$700
- D). Dr Equipment Expense \$1,000 and Cr. Accounts Payable \$1,000
- E). Not enough information given for this answer / None of the above

PART 2: INDEPENDENT QUESTIONS

(the remaining questions are totally unrelated to the case of Part 1)

This Section Question 37-50 ONLY APPLIES TO the information provided in each question. They are not related to the “Tea Experience” case.

A37). If a business declared and paid a \$500 dividend, it would appear on which of the following?

- A) Income statement only
- B) Balance sheet only
- C) Statement of retained earnings and cash flow statement
- D) Statement of retained earnings only
- E) None of the above is correct

B37). If a business declared \$500 dividend, it would appear on which of the following?

- A) Income statement only
- B) Balance sheet only
- C) Statement of retained earnings and cash flow statement
- D) Statement of retained earnings only
- E) None of the above is correct

A38). Which of the following accounts is always treated as a contra revenue and not as a selling expense?

- A) Purchase returns and allowances
- B) Sales returns and allowances
- C) Sales revenues
- D) Depreciation expense
- E) None of the above is correct

B38). Which of the following accounts is always treated as a contra asset and not as a liability?

- A) Purchase returns and allowances
- B) Sales returns and allowances
- C) Accumulated Depreciation
- D) Depreciation expense
- E) None of the above is correct

A39). A company that makes the following journal entry at the time of purchasing inventory is using which of the following inventory systems?

**Dr. Inventory
Cr. Accounts Payable**

- A) Periodic system
- B) Perpetual system
- C) Just-in-time system
- D) Specific identification system
- E) None of the above

B39). A company that makes the following journal entry at the time of purchasing inventory is using which of the following inventory systems?

Dr. Purchases
Cr. Accounts Payable

- A) Periodic system
- B) Perpetual system
- C) Just-in-time system
- D) Specific identification system
- E) None of the above

B40). On May 15th Bain Bathtubs signed a lease to rent a storefront starting on June 1st for the next two years at \$1,000 per month. They paid the first two months' rent in advance on signing the lease. On May 15th how would the event be recorded?

- A) Dr. Rent expense \$2,000, Cr. Cash \$2,000
- B) Dr. Rent expense \$24,000, Cr. Cash \$24,000
- C) Dr. Prepaid rent \$2,000, Cr. Cash \$2,000
- D) Dr. Prepaid rent \$24,000, Cr Cash \$2,000 Cr. Rent payable \$22,000
- E) None of the above

A40). On July 15th Bain Bathtubs signed a lease to rent a storefront starting on June 1st for the next two years at \$1,000 per month. They paid the first two months' rent on formalizing the signing the lease. On July 15th how would the event be recorded?

- A) Dr. Rent expense \$2,000, Cr. Cash \$2,000
- B) Dr. Prepaid Rent \$22,500, Dr Rent Expense \$1,500, Cr. Cash \$2,000, Cr. Rent Payable \$22,000
- C) Dr. Prepaid rent \$2,000, Cr. Cash \$2,000
- D) Dr. Prepaid rent \$500, Dr Rent Expense \$1,500 Cr Cash \$2,000
- E) None of the above

B41). Toy Company bought a new motor vehicle worth \$50,000. They paid \$5,000 down and took out a loan from TD Bank for the balance. How would the event be recorded?

- A) Dr. Capital assets (truck) \$45,000, Cr. Cash \$5,000, Cr. Bank loan \$40,000
- B) Dr. Capital assets (truck) \$50,000, Cr Cash \$5000, Cr. Bank loan \$45,000
- C) Dr. Cash \$5,000, Dr. Bank loan \$45,000, Cr. Capital asset (truck) \$45,000,
- D) Dr. Bank loan \$40,000, Cr. Capital assets (truck) \$40,000,
- E) None of the above

A41). Toy Company bought a new motor vehicle worth \$50,000. They paid \$15,000 down and took out a loan from TD Bank for the balance. How would the event be recorded?

- A) Dr. Capital assets (truck) \$35,000, Cr. Cash \$15,000, Cr. Bank loan \$35,000
- B) Dr. Capital assets (truck) \$50,000, Cr. Cash \$5,000, Cr. Bank loan \$45,000
- C) Dr. Cash \$15,000, Dr. Bank loan \$35,000, Cr. Capital asset (truck) \$50,000
- D) Dr. Bank loan \$35,000, Dr. Capital assets (truck) \$50,000 Cr. Cash \$15,000 Cr. Bank Loans Payable \$70,000
- E) None of the above

A42). At the end of the month Main Ltd. determined that the cost of goods that had been sold during the month was \$125,000. How might this information be recorded?

- A) The information is not recorded as no economic event had taken place.
- B) A decrease in inventory of \$125,000 and an increase in expenses of \$125,000
- C) An increase in inventory of \$125,000 and a decrease in cash of \$125,000.
- D) An increase in expenses of \$125,000 and an increase in accounts payable of \$125,000
- E) None of the above

B42). At the end of the month Main Ltd. determined that the ending balance of inventory was \$125,000. How might this information be recorded?

- A) The information is not recorded as no economic event had taken place.
- B) A decrease in inventory to \$125,000 and an increase in expenses of \$125,000.
- C) An increase in inventory to \$125,000 and a decrease in cash of \$125,000.
- D) An increase in expenses of \$125,000 and an increase in accounts payable of \$125,000
- E) None of the above

A43). York Inc. had a loan outstanding during the month, and at the end of the month they paid interest expense of \$1000. How would the event be recorded?

- A) A decrease in cash and a decrease in loan payable.
- B) An increase in interest expense and an increase in loan payable.
- C) An increase in interest expense and a decrease in loan payable.
- D) A decrease in cash and an increase in interest expense.
- E) None of the above

B43). Which of the following economic events would be captured by an accrual accounting system, but not by a cash accounting system?

- A) Receipt of payment for a previous sale made on credit.
- B) Payment of an amount owing on a previous purchase.
- C) Payment of dividends to shareholders.
- D) Use of a previously purchased motor vehicle for company business.
- E) None of the above

A44). Which of the following would be considered an asset for accounting purposes?

- A) Employees who work for the company
- B) Research into new products for the company
- C) A building owned by the company but rented out
- D) Advertising spent on attracting customers to the company
- E) None of the above

B44). Which of the following best describes the matching concept in accounting?

- A) Revenues should be recorded in the same period as the expenses related to it are paid.
- B) Revenue should be recorded in the same period as the cash is received.
- C) Expenses should be recorded when paid.
- D) Expenses should be recorded in the same period as the revenue they helped earn is recorded.
- E) None of the above

A45). On January 15, Frazier Company received merchandise for resale from its normal supplier. The invoice price was \$3,600 with terms of 4/10, n/30 for 100 units of Part #345. The invoice was paid on January 19. Freight costs were \$120 and the company paid \$108 of interest on a loan to buy the inventory. What is the unit cost that should be recorded for each of the 100 units of Part # 345?

- A) \$36.00
- B) \$37.20
- C) \$35.76
- D) \$34.56
- E) None of the above is correct

ANS: $[(\$3,600 \times 96\%) + 120] \div 100 = \underline{\$35.76}$

B45). On January 15, Frazier Company received merchandise for resale from its normal supplier. The invoice price was \$5,000 with terms of 5/10, n/30 for 100 units of Part #345. The invoice was paid on January 19. Freight costs were \$200 and the company paid \$120 of interest on a loan to buy the inventory. What is the unit cost that should be recorded for each of the 100 units of Part # 345?

- A) \$51.20
- B) \$49.50
- C) \$48.70
- D) \$48.20
- E) None of the above is correct

ANS: $[(\$5,000 \times 95\%) + 200] \div 100 = \underline{\$49.50}$

B46). Atkinson Corporation sold merchandise with an invoice price of \$3,000 to Zoltan, Inc., with terms of 4/10, n/30. In the books of Zoltan, which of the following is the correct entry to record the payment by Zoltan within the 10 days if the company uses the periodic inventory system and the gross method to record purchases?

- A) Dr Cash 2,880
 Dr Sales Discount 120
 Cr Accounts Receivable 3,000
- B) Dr Accounts Payable 3,000
 Cr Cash 2,880
 Cr Purchase Discount 120
- C) Dr Accounts Payable 2,880
 Cr Cash 2,880
- D) Dr Purchases 2,880
 Cr Cash 2,880
- E) None of the above is correct

ANS B Dr Accounts Payable 3,000
 Cr Cash 2,880
 Cr Purchase Discount 120

A46). Atkinson Corporation sold merchandise with an invoice price of \$5,000 to Zoltan, Inc., with terms of 5/10, n/30. In the books of Zoltan, which of the following is the correct entry to record the payment by Zoltan within the 10 days if the company uses the perpetual inventory system and the gross method to record purchases?

- A) Dr Accounts Payable 5,000
 Cr Cash 4,750
 Cr Purchase Discount 250
- B) Dr Cash 4,750
 Dr Sales Discount 250
 Cr Accounts Receivable 5,000
- C) Dr Accounts Payable 4,750
 Cr Cash 4,750
- D) Dr Purchases 4,750
 Cr Cash 4,750
- E) None of the above is correct

ANS A Dr Accounts Payable 5,000
 Cr Cash 4,750
 Cr Purchase Discount 250

A47). Lincoln Glass Company sold goods for \$5,000 to Olivia Company on March 12 on credit. Terms of the sale were 3/10, n/30. At the time of the sale, Lincoln recorded the transaction by debiting accounts receivable for \$5,000 and crediting sales revenue for \$5,000 while Olivia debited Purchases for \$5,000 and credited Accounts Payable for \$5,000. Olivia paid the balance due, less the discount, on March 21. To record the March 21 transaction, Lincoln would debit which of the following?

- A) Cash for \$5,000.
- B) Accounts receivable for \$4,850
- C) Cash for \$4,850
- D) Accounts receivable for \$5,000.
- E) None of the above is correct

ANS C Cash 4,850

B47). Lincoln Glass Company sold goods for \$5,000 to Olivia Company on March 12 on credit. Terms of the sale were 3/10, n/30. At the time of the sale, Lincoln recorded the transaction by debiting accounts receivable for \$5,000 and crediting sales revenue for \$5,000 while Olivia debited Purchases for \$5,000 and credited Accounts Payable for \$5,000. Olivia paid the balance due, less the discount, on March 21. To record the March 21 transaction, Olivia would debit which of the following?

- A) Cash for \$5,000.
- B) Accounts payable for \$4,850
- C) Cash for \$4,850
- D) Accounts payable for \$5,000
- E) None of the above is correct

ANS D Accounts Payable 5,000

A48). The 2015 records of Western Company showed beginning inventory, \$80,000; cost of goods sold, \$460,000; and ending inventory, \$90,000. The purchases for 2015 equal:

- A) \$470,000
- B) \$480,000
- C) \$450,000
- D) \$410,000
- E) None of the above is correct

ANS A 470,000

B48). In what order are assets listed on a balance sheet?

- A) Dollar amount (largest first).
- B) Date of acquisition (earliest first).
- C) Ease of conversion to cash
- D) Importance to the operation of the business
- E) None of the above is correct

ANS C

B49). Which of the following phases of the accounting information processing cycle is performed at the end of the accounting period?

- A) Liquidation
- B) Peer reviews
- C) Adjusting entries
- D) Transaction entries
- E) None of the above is correct

ANS C

A49). A company purchases \$25,000 of inventory in January 2016 and will pay for it in March 2016, which of the following statements is false?

- A) The company will report accounts payable of \$25,000 in February 2016.
- B) The statement of cash flows will report an operating cash outflow of \$25,000 in March 2016.
- C) The income statement will report the \$25,000 as cost of goods sold in January 2016 when they are purchased.
- D) None of the above is false
- E) All of the above are false

ANS C

A50). Apartments-for-Rent Corporation received cash of \$7,200 on August 1, 2015 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue.

The December 31, 2015 adjusting entry shall be:

- A). Debit Rent Revenue and credit Unearned Rent, \$3,000
- B). Debit Rent Revenue and credit Unearned Rent, \$4,200
- C). Debit Unearned Rent and credit Rent Revenue, \$3,000
- D). Debit Cash and credit Unearned Rent, \$4,200
- E) None of the above is correct

ANS B expense for 2015 is 3,000 while the rest belongs to 2016

B50). In what order are liabilities listed on a balance sheet?

- A) Dollar amount (largest first)
- B) Due date (earliest first)
- C) Ease of conversion to cash
- D) Importance to the operation of the business
- E) None of the above is correct

ANS B

End of exam

SOLUTIONS

York University AP/ADMS 2500.03 Introduction to Financial Accounting Midterm Examination #1 – Test Forms A&B

Time: 3 hours

Winter 2016

Questions: 50

PART 1: *Lady Leaf and her “Tea experience” business*

(Questions 1 to 36 are based on this case. All questions are equal weighted)

Johanna Strauss had worked for more than 25 years as the executive assistant of top managers in large Canadian corporations. After retirement she decided to go on a trip around the world until she gets bored or drops dead. After 20 months in her ‘voyage’ Johanna decided to return to Toronto due to a complicated health condition. After the initial treatment was completed Johanna needed to have regular check ups and not being confident in herself as before she decided to stay in Toronto all the time. Johanna has been always extremely active and in this new stage of her life she couldn’t sit still. At this stage she was not interested in working for others as her health made her not very reliable, so she decided to start her own business with a passion she discovered in her ‘voyage’: prepare and serve tea as it should be done. Her target market or audiences are selected meetings organized by top executives or their partners in their houses.

On January 1st 2016 Johanna or Lady Leaf as she wanted to be called set up a company to formalize the tea service she has been experiencing with her friends and acquaintances. A friend help her to prepare a business plan that was ready to be presented at her friend’s bank so she can get some extra financing if needed, in the meantime this friend was so sure about Johanna’s idea that decided to lend her \$10,000 for 5 years with an interest rate of 3% per year. On January 2nd Johanna sets up her company: Tea Experience with a capital of 10,000 shares valued at \$5 each. A lawyer produced all the needed paperwork.

On January 3rd Johanna opens a bank account under the name of Tea Experience Corp. depositing the \$10,000 from her plus the \$10,000 loaned by her friend. On January 4th Johanna transfers ownership of her sets of tea equipment to the company. All of her tea equipment is high end while one is very rare and exclusive. The equipment has a fair market value of \$7,500 and is estimated to last for 5 years and then, if not broken, can be sold for \$1,500. She also made sure to transfer the insurance contract for her tea equipment from her to the company as well, the contract started on October 1st 2015. The insurance premium is \$900 per year and it was paid in full when signed on October 1st 2015. On the same day Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

The following is a list of transactions that occurred during the first month of operations of “Tea Experience Corp”:

January	Description
4	Completed the purchase of an exquisite wood box fitted to carry and maintain intact the quality of tea leaves for \$3,000. The box, which will be paid in full on January 5 th 2017, will be used during 5 full years with no resale value at the end
5	Completed the purchase of an exquisite selection of tea leaves and mixtures for \$2,000. 50% was paid in cash, the other 50% will be paid in 30 days.
7	Great start of business serving several events for a large and well known international charity. Got a cheque for \$3,000 for her services and \$2,000 in account to be collected on Jan 31 st .
7	Paid \$400 of transportation to the ride sharing service.
15	Hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20 th and promised to pay the rest (\$700) on February 20 th .
20	Provided her services for two small events. One promised to pay \$500 of February 10 th , while the other will pay the \$500 by the end of February
20	Provided services in an afternoon event at a local church. Johanna collected \$200 for all her services.
20	Paid \$100 of transportation to the ride sharing service.
23	Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25 th
23	Ordered 300 personal cards and 100 brochures. Total paid for the rush order is \$500 (\$1 each personal card and \$2 each brochure). Johanna will start distributing them at the high end event of January 25 th
25	One big event was serviced. The bill of \$4,000 was paid 50% before the beginning of the event and the rest in 30 days. Johanna was able to distribute 100 personal cards and 20 brochures.
27	Small event was serviced collecting \$500 in cash for all fees at the end of the event.
29	Received the bill from the lawyer that helped her to set up the company for \$900 payable by February 15 th .
30	Received a deposit of \$800 for servicing a mid afternoon get together on February 29 th . The group wanted to reserve the date to do something special in her house as it only happens once every 4 years.
31	Having consumed 75% of the tea at hand she purchases on account more tea for \$1,000.
	Additional information
31	The online bank statement for the month of January shows bank fees of \$25
31	The phone bill for \$120 was received for the month of January, the payment is due on February 9 th
31	Johanna does not collect \$2,000 from a service provided on Jan 7th
31	Having cash at the bank decided to pay off all tea purchases

Comment [e3]: This changes to 100% for topic B

Comment [e4]: This is eliminated for Topic B.

Prepare “T” Accounts in Accrual Basis for “Tea Experience” and then answer the questions.

Questions on TEA EXPERIENCE Case

This Section Questions 1-23 ONLY APPLIES TO ACCRUAL ACCOUNTING for “TEA EXPERIENCE” for the date ending January 31st:

- A1). What was the Cash balance at the end of the January 31 (after AJE)?**
- A). less than \$10,000
 - B). between \$10,001 and \$18,000
 - C). between \$18,001 and \$24,000*
 - D). between \$24,001 and \$30,000
 - E). more than \$30,000
- B7). What was the Cash balance at the end of the January 31 (after AJE)?**
- A). less than \$10,000
 - B). between \$10,001 and \$18,000
 - C). between \$18,001 and \$24,000
 - D). between \$24,001 and \$30,000*
 - E). more than \$30,000
- A2). What is the amount of Accounts Receivables at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$1,000
 - C). between \$1,001 and \$3,000
 - D). between \$3,001 and \$5,000*
 - E). more than \$5,000
- A3). What is the amount of Inventory at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$1,000
 - C). between \$1,001 and \$2,000*
 - D). between \$2,001 and \$3,000
 - E). more than \$3,000
- B8). What is the amount of Organizational Costs at the end of January 31 (after AJE)?**
- A). \$0
 - B). between \$1 and \$100
 - C). between \$101 and \$800
 - D). between \$801 and \$1,000*
 - E). more than \$1,000

B9). What is the amount of Prepaid Advertising at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$300
- C). between \$301 and \$450*
- D). between \$451 and \$500
- E). more than \$500

A4). What is the amount of Prepaid Insurance at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$200
- C). between \$201 and \$400
- D). between \$401 and \$600*
- E). more than \$600

B10). What is the balance of the account Tea Equipment as reported in the Balance Sheet Statement at the end of January 31 (after AJE)? Note: Consider that Tea Equipment account includes also the wooden box.

- A). \$0
- B). between \$1 and \$3,400
- C). between \$3,401 and \$7,400
- D). between \$7,401 and \$10,400
- E). more than \$10,400*

A5). What is the net book value of Tea Equipment at the end of January 31 (after AJE)? Note: Consider that Tea Equipment account includes also the wooden box.

- A). \$0
- B). between \$1 and \$3,400
- C). between \$3,401 and \$7,400
- D). between \$7,401 and \$10,400*
- E). more than \$10,400

B11). What is the amount of unearned revenues or advances from customers at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$250
- C). between \$251 and \$500
- D). between \$501 and \$750
- E). more than \$750*

A6). What is the amount of Accounts Payable at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B12). What is the amount of Accounts Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000*
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A7). What is the amount of Equipment Payable (wooden box) at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000*

B13). What is the amount of Interest Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$10
- C). between \$11 and \$20
- D). between \$20 and \$30*
- E). more than \$30

A8). What is the amount of Loan Payable (long term) at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$5,000
- C). between \$5,001 and \$10,000*
- D). between \$10,001 and \$15,000
- E). more than \$15,000

B14). What is the amount of Organizational Costs Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$1,000*
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A9). What is the amount of Phone Payable at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

A10). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$8,000
- D). between \$8,001 and \$10,000
- E). more than \$10,000*

B15). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$8,000
- D). between \$8,001 and \$10,000
- E). more than \$10,000*

B16). What is the amount of Advertising Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

A11). What is the amount of Bank Fees Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50*
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A12). What is the amount of Cost of Goods Sold at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000
- D). between \$1,001 and \$1,500*
- E). more than \$1,500

B17). What is the amount of Cost of Goods Sold at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000
- D). between \$1,001 and \$1,500
- E). more than \$1,500*

B18). What is the amount of Depreciation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

A13). What is the amount of Expense on Equipment at the end of January 31 (after AJE)? Note: this is not related with depreciation, this account captures money added to equipment that does not qualify as improvements, therefore they cannot be depreciated.

- A). \$0
- B). between \$1 and \$500
- C). between \$501 and \$1,000*
- D). between \$1,001 and \$1,500
- E). more than \$1,500

B19). What is the amount of Insurance Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100*
- D). between \$101 and \$150
- E). more than \$151

A14). What is the amount of Interest Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50*
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B20). What is the amount of Phone Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

A15). What is the balance of Purchases at the end of January 31 (after AJE)?

- A). \$0 *
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

B21). What is the balance of Purchases at the end of January 31 (after AJE)?

- A). \$0 *
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A16). What is the amount of Selling Expenses at the end of January 31 (after AJE)? Note: selling expenses include all cash outflows or promises to pay for goods or services that will only help to improve the marketing or selling strategy of the Tea Experience services

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

B22). What is the amount of Transportation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$100
- C). between \$101 and \$200
- D). between \$201 and \$300
- E). more than \$300*

A17). What is the Total of all Assets at the end of January as reported in the Balance Sheet?

- A). less than \$30,000
- B). between \$30,001 and \$38,100
- C). between \$38,101 and \$41,200*
- D). between \$41,201 and \$42,300
- E). more than \$42,300

A18). What is the Total of all Liabilities at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$13,100
- C). between \$13,101 and \$15,200
- D). between \$15,201 and \$16,300*
- E). more than \$16,300

A19). What is the Total of Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$18,100
- C). between \$18,101 and \$21,200
- D). between \$21,201 and \$22,300
- E). more than \$22,300*

A20). What is the Total of Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000*
- D). between \$2,001 and \$3,000
- E). more than \$3,000

A21). What is the Total of Non Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000*

A22). What is the total of the account Owners Equity reported in the balance sheet at the end January?

- A). less than \$10,000
- B). between \$10,001 and \$18,100
- C). between \$18,101 and \$21,200*
- D). between \$21,201 and \$22,300
- E). more than \$22,300

A23). What is the total of the account Retained Earnings reported in the Balance Sheet at the end January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$4,000
- D). between \$4,001 and \$6,000
- E). more than \$6,000*

B23). What is the total of the account Retained Earnings reported in the Balance Sheet at the end January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$4,000
- D). between \$4,001 and \$6,000
- E). more than \$6,000*

B24). How much is the Net Income reported in the Income Statement for the month of January?

- A). \$0 or negative (net loss)
- B). between \$1 and \$2,000
- C). between \$2,001 and \$5,000
- D). between \$5,001 and \$7,000*
- E). more than \$7,000

B25). What is the Total of Non Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$18,100*
- C). between \$18,101 and \$21,200
- D). between \$21,201 and \$22,300
- E). more than \$22,300

B26). What is the Total of Current Liabilities at the end of January as reported in the Balance Sheet?

- A). \$0
- B). between \$1 and \$1,000
- C). between \$1,001 and \$2,000
- D). between \$2,001 and \$3,000
- E). more than \$3,000*

B27). What is the Total of Current Assets at the end of January as reported in the Balance Sheet?

- A). less than \$20,000
- B). between \$20,001 and \$28,100
- C). between \$28,101 and \$31,200
- D). between \$31,201 and \$32,300*
- E). more than \$32,300

B28). What is the Total of all Liabilities at the end of January as reported in the Balance Sheet?

- A). less than \$10,000
- B). between \$10,001 and \$13,100
- C). between \$13,101 and \$15,200
- D). between \$15,201 and \$16,300
- E). more than \$16,300*

B29). What is the Total of all Assets at the end of January as reported in the Balance Sheet?

- A). less than \$30,000
- B). between \$30,001 and \$38,100
- C). between \$38,101 and \$41,200
- D). between \$41,201 and \$42,200
- E). more than \$42,200*

Solutions for Topic A

	#	Account	Debit	Credit
1	3-Jan	Dr Cash	10000	
		Cr OE		-10000
2	3-Jan	Dr Cash	10000	
		Cr Loan		-10000
3	4-Jan	Dr Tea equipment	7500	
		Cr OE		-7500
4	4-Jan	Dr Prepaid insurance	675	
		Cr OE		-675
5	5-Jan	Dr Tea Equipment (Box)	3000	
		Cr Equipment Payable		-3000
6	7-Jan	Dr Purchases	2000	
		Cr Cash		-1000
		Cr AP		-1000
7	7-Jan	Dr Cash	3000	
		Cr AR	2000	
		Dr Revenue		-5000
8	15-Jan	Cr Transporation Expense	400	
		Cash		-400
9	20-Jan	Dr Expense on Equipment	1000	
		Cr Cash		-300
		Equipment Payable		-700
10	20-Jan	Dr AR	1000	
		Cr Revenue		-1000
11	20-Jan	Dr Cash	200	
		Cr Revenue		-200
12	23-Jan	Dr Transporation Expense	100	
		Cr Cash		-100
13	23-Jan	Dr Selling Expenses	120	
		Cr Cash		-120
14	25-Jan	Dr Prepaid Advertising	500	
		Cr Cash		-500
15	27-Jan	Dr Cash	2000	
		Cr AR	2000	
		Revenue		-4000
16	29-Jan	Dr Cash	500	
		Cr Revenue		-500
17	30-Jan	Dr Organizational Costs	900	
		Cr Org Costs Payable		-900
18	31-Jan	Dr Cash	800	
		Cr Advances from customers		-800
19	31-Jan	Dr Purchases	1000	
		Cr AP		-1000
AJE				
	31-Jan	Dr Bank fees	25	
		Cr Cash		-25
	31-Jan	Dr Phone Expense	120	
		Cr Phone payable		-120
	31-Jan	Dr Interest Expense	25	
		Cr Interest Payable		-25
	31-Jan	Dr Depreciation Expense	100	
		Cr Accumulated Depreciation		-100
	31-Jan	Dr Insurance Expense	75	
		Cr Prepaid insurance		-75
	31-Jan	Dr Depreciation Expense	50	
		Cr Accumulated Depreciation		-50
	31-Jan	Dr CGS	1500	
		Cr Inventory	1500	
		Purchases		-3000
	31-Jan	Dr Advertising Expense	140	
		Cr Prepaid Advertising		-140
	31-Jan	Dr AP	2000	
		Cr Cash		-2000

Account	Sum of Debit2	Sum of Credit2			
Revenue		-10700	Income Statement		
Advertising Expense	140				
Bank fees	25			7045	
CGS	1500				
Depreciation Expense	150				
Expense on Equipment	1000				
Insurance Expense	75				
Interest Expense	25				
Phone Expense	120				
Purchases	3000	-3000			
Selling Expenses	120				
Transportation Expense	500				
Accumulated Depreciation		-150			
AR	5000				
Cash	26500	-4445	22055	Cash	
Inventory	1500				
Organizational Costs	900		Current Assets		29515
Prepaid Advertising	500	-140	Non current assets		11250
Prepaid insurance	675	-75			40765
Tea equipment	7500				
Tea Equipment (Box)	3000				
Advances from customers		-800			
AP	2000	-2000			
Equipment Payable		-3700	Current liabilities		1845
Interest Payable		-25	Non current liabilities		13700
Loan		-10000			15545
Org Costs Payable		-900			
Phone payable		-120			
OE		-18175			18175
(blank)					7045
	54230	-54230			40765

Solutions for topic B

Journal entries Topic B		Change: AP remain at \$2000 and tea used at 100%			
	#	Account	Debit	Credit	
1	3-Jan	Dr Cash	10000		
		Cr OE		-10000	
2	3-Jan	Dr Cash	10000		
		Cr Loan		-10000	
3	4-Jan	Dr Tea equipment	7500		
		Cr OE		-7500	
4	4-Jan	Dr Prepaid insurance	675		
		Cr OE		-675	
5	5-Jan	Dr Tea Equipment (Box)	3000		
		Cr Equipment Payable		-3000	
6	7-Jan	Dr Purchases	2000		
		Cr Cash		-1000	
		AP		-1000	
7	7-Jan	Dr Cash	3000		
		Cr AR	2000		
		Dr Revenue		-5000	
8	15-Jan	Cr Transporation Expense	400		
		Cash		-400	
9	20-Jan	Dr Expense on Equipment	1000		
		Cr Cash		-300	
		Equipment Payable		-700	
10	20-Jan	Dr AR	1000		
		Cr Revenue		-1000	
11	20-Jan	Dr Cash	200		
		Cr Revenue		-200	
12	23-Jan	Dr Transporation Expense	100		
		Cr Cash		-100	
13	23-Jan	Dr Selling Expenses	120		
		Cr Cash		-120	
14	25-Jan	Dr Prepaid Advertising	500		
		Cr Cash		-500	
15	27-Jan	Dr Cash	2000		
		Cr AR	2000		
		Revenue		-4000	
16	29-Jan	Dr Cash	500		
		Cr Revenue		-500	
17	30-Jan	Dr Organizational Costs	900		
		Cr Org Costs Payable		-900	
18	31-Jan	Dr Cash	800		
		Cr Advances from customers		-800	
19	31-Jan	Dr Purchases	1000		
		Cr AP		-1000	
AJE					
	31-Jan	Dr Bank fees	25		
		Cr Cash		-25	
	31-Jan	Dr Phone Expense	120		
		Cr Phone payable		-120	
	31-Jan	Dr Interest Expense	25		
		Cr Interest Payable		-25	
	31-Jan	Dr Depreciation Expense	100		
		Cr Accumulated Depreciation		-100	
	31-Jan	Dr Insurance Expense	75		
		Cr Prepaid insurance		-75	
	31-Jan	Dr Depreciation Expense	50		
		Cr Accumulated Depreciation		-50	
	31-Jan	Dr CGS	2000		
		Cr Inventory	1000		
		Purchases		-3000	
	31-Jan	Dr Advertising Expense	140		
		Cr Prepaid Advertising		-140	

Account	Sum of Debit2	Sum of Credit2			
Revenue		-10700	Income Statement		
Advertising Expense	140				
Bank fees	25		6545		
CGS	2000				
Depreciation Expense	150				
Expense on Equipment	1000				
Insurance Expense	75				
Interest Expense	25				
Phone Expense	120				
Purchases	3000	-3000			
Selling Expenses	120				
Transporation Expense	500				
Accumulated Depreciation		-150			
AR	5000				
Cash	26500	-2445	24055	Cash	
Inventory	1000				
Organizational Costs	900		Current Assets		31015
Prepaid Advertising	500	-140	Non current assets		11250
Prepaid insurance	675	-75			42265
Tea equipment	7500				
Tea Equipment (Box)	3000				
Advances from customers		-800			
AP		-2000			
Equipment Payable		-3700	Current liabilities		3845
Interest Payable		-25	Non current liabilities		13700
Loan		-10000			17545
Org Costs Payable		-900			
Phone payable		-120			
OE		-18175			18175
(blank)			Retained Earnings		6545
	52230	-52230			42265

This Section Question 24-30 ONLY APPLIES TO CASH BASIS ACCOUNTING for “Tea Experience” for the date ending January 31:

A24). What was the Cash balance at the end of the January 31 (after AJE)?

- A). less than \$10,000
- B). between \$10,001 and \$18,000
- C). between \$18,001 and \$24,000*
- D). between \$24,001 and \$30,000
- E). more than \$30,000

B30). What was the Cash balance at the end of the January 31 (after AJE)?

- A). less than \$10,000
- B). between \$10,001 and \$18,000
- C). between \$18,001 and \$24,000
- D). between \$24,001 and \$30,000*
- E). more than \$30,000

A25). What is the amount of Accounts Receivables at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$1,000
- C). between \$1,001 and \$3,000
- D). between \$3,001 and \$5,000
- E). more than \$5,000

B31). What is the amount of Interest Payable at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$10
- C). between \$11 and \$20
- D). between \$20 and \$30
- E). more than \$30

A26). What is the amount of Prepaid Advertising at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$300
- C). between \$301 and \$450
- D). between \$451 and \$500
- E). more than \$500

B32). What is the amount of Prepaid Insurance at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$200
- C). between \$201 and \$400
- D). between \$401 and \$600
- E). more than \$600

A27). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$6,000
- D). between \$6,001 and \$10,000*
- E). more than \$10,000

A28). What is the sum of all expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$5,000*
- D). between \$5,001 and \$8,000
- E). more than \$8,000

B33). What is the amount of Revenue at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000
- C). between \$4,001 and \$6,000
- D). between \$6,001 and \$10,000*
- E). more than \$10,000

B34). What is the sum of all expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$4,000*
- C). between \$4,001 and \$5,000
- D). between \$5,001 and \$8,000
- E). more than \$8,000

A29). What is the amount of Depreciation Expense at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

B35). What is the amount of Insurance Expense at the end of January 31 (after AJE)?

- A). \$0*
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150
- E). more than \$151

A30). What is the amount of Selling Expenses at the end of January 31 (after AJE)? Note: selling expenses include all cash outflows or promises to pay for goods or services that will only help to improve the marketing or selling strategy of the Tea Experience services

- A). \$0
- B). between \$1 and \$50
- C). between \$51 and \$100
- D). between \$101 and \$150*
- E). more than \$151

B36). What is the amount of Transportation Expense at the end of January 31 (after AJE)?

- A). \$0
- B). between \$1 and \$100
- C). between \$101 and \$200
- D). between \$201 and \$300
- E). more than \$300*

1	3-Jan	Dr	Cash	10000	
		Cr	OE		-10000
2	3-Jan	Dr	Cash	10000	
		Cr	Loan		-10000
3	4-Jan	Dr	Tea equipment	7500	
		Cr	OE		-7500
4	4-Jan	Dr	Prepaid insurance	675	
		Cr	OE		-675
5	5-Jan	Dr	Tea Equipment (Box)	3000	
		Cr	Equipment Payable		-3000
6	7-Jan	Dr	Purchases	2000	
		Cr	Cash		-1000
			AP		-1000
7	7-Jan	Dr	Cash	3000	
		Cr	AR	2000	
			Revenue		-5000
8	15-Jan	Cr	Transporation Expense	400	
			Cash		-400
9	20-Jan	Dr	Expense on Equipment	1000	
		Cr	Cash		-300
			Equipment Payable		-700
10	20-Jan	Dr	AR	1000	
		Cr	Revenue		-1000
11	20-Jan	Dr	Cash	200	
		Cr	Revenue		-200
12	23-Jan	Dr	Transporation Expense	100	
		Cr	Cash		-100
13	23-Jan	Dr	Selling Expenses	120	
		Cr	Cash		-120
14	25-Jan	Dr	Prepaid Advertising	500	
		Cr	Cash		-500
15	27-Jan	Dr	Cash	2000	
		Cr	AR	2000	
			Revenue		-4000
16	29-Jan	Dr	Cash	500	
		Cr	Revenue		-500
17	30-Jan	Dr	Organizational Costs	900	
		Cr	Org Costs Payable		-900
18	31-Jan	Dr	Cash	800	
		Cr	Advances from customers		-800
19	31-Jan	Dr	Purchases	1000	
		Cr	AP		-1000
AJE					
	31-Jan	Dr	Bank fees	25	
		Cr	Cash		-25
	31-Jan	Dr	Phone Expense	120	
		Cr	Phone payable		-120
	31-Jan	Dr	Interest Expense	25	
		Cr	Interest Payable		-25
	31-Jan	Dr	Depreciation Expense	100	
		Cr	Accumulated Depreciation		-100
	31-Jan	Dr	Insurance Expense	75	
		Cr	Prepaid insurance		-75
	31-Jan	Dr	Depreciation Expense	50	
		Cr	Accumulated Depreciation		-50
	31-Jan	Dr	CGS	1500	
		Cr	Inventory	1500	
			Purchases		-3000
	31-Jan	Dr	Advertising Expense	140	
		Cr	Prepaid Advertising		-140
	31-Jan	Dr	AP	2000	
		Cr	Cash		-2000

Cash Revenue	
	6500
Cash Expenses	
	4445
Net income (cash basis)	
	2055

Solutions for Topic A

Journal entries Topic B		Change: AP remain at \$2000 and tea use		
#	Account	Debit	Credit	
1	3-Jan Dr Cash	10000		
	Cr OE		-10000	
2	3-Jan Dr Cash	10000		
	Cr Loan		-10000	
3	4-Jan Dr Tea equipment	7500		
	Cr OE		-7500	
4	4-Jan Dr Prepaid insurance	675		
	Cr OE		-675	
5	5-Jan Dr Tea Equipment (Box)	3000		
	Cr Equipment Payable		-3000	
6	7-Jan Dr Purchases	2000		
	Cr Cash		-1000	
	AP		-1000	
7	7-Jan Dr Cash	3000		
	Cr AR	2000		
	Dr Revenue		-5000	
8	15-Jan Cr Transporation Expense	400		
	Cash		-400	
9	20-Jan Dr Expense on Equipment	1000		
	Cr Cash		-300	
	Equipment Payable		-700	
10	20-Jan Dr AR	1000		
	Cr Revenue		-1000	
11	20-Jan Dr Cash	200		
	Cr Revenue		-200	
12	23-Jan Dr Transporation Expense	100		
	Cr Cash		-100	
13	23-Jan Dr Selling Expenses	120		
	Cr Cash		-120	
14	25-Jan Dr Prepaid Advertising	500		
	Cr Cash		-500	
15	27-Jan Dr Cash	2000		
	Cr AR	2000		
	Revenue		-4000	
16	29-Jan Dr Cash	500		
	Cr Revenue		-500	
17	30-Jan Dr Organizational Costs	900		
	Cr Org Costs Payable		-900	
18	31-Jan Dr Cash	800		
	Cr Advances from customers		-800	
19	31-Jan Dr Purchases	1000		
	Cr AP		-1000	
AJE				
	31-Jan Dr Bank fees	25		
	Cr Cash		-25	

Solutions for topic B

Cash Revenue	
	6500
Cash Expenses	
	2445
Net income (cash basis)	
	4055

This Section Question 31-36 ONLY APPLIES TO JOURNAL ENTRIES (accrual accounting) for “Tea Experience” for January:

Indicate which journal entry must be recorded for each of the following economic events on the exact day of the event:

A31). January 4. Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

- A). No journal entry*
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100
- E). Not enough information given for this answer / None of the above

A32). On January 4th completed the purchase of an exquisite wood box fitted to carry and maintain intact the quality of tea leaves for \$3,000. The box, which will be paid in full on January 5th 2017, will be used during 5 full years with no resale value at the end.

- A). Dr Equipment \$3,000 and Cr Equipment Payable \$3,000 (current liability)
- B). Dr Equipment \$3,000 and Cr Equipment Payable \$3,000 (non current liability) *
- C). Dr Equipment Expense \$3,000 and Cr. Accounts Payable \$3,000 (current liability)
- D). Dr Equipment Expense \$3,000 and Cr. Accounts Payable \$3,000 (non current liability)
- E). Not enough information given for this answer / None of the above

B1). On January 15th hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20th and promised to pay the rest (\$700) on February 20th.

- A). Dr Equipment \$1,000 Cr .Cash \$300 Cr Equipment Payable \$700
- B). Dr Equipment \$1,000 Cr Equipment Payable \$1,000
- C). Dr Equipment Expense and Cr. Cash \$300 Cr. Accounts Payable \$700*
- D). Dr Equipment Expense and Cr. Accounts Payable \$1,000
- E). Not enough information given for this answer / None of the above

B2). January 30. Received a deposit of \$800 for servicing a mid afternoon get together on February 29th. The group wanted to reserve the date to do something special in her house as it only happens once every 4 years.

- A). No journal entry
- B). Dr Cash \$800 Cr Advances from customers \$800*
- C). Dr Cash \$800 Cr Revenue \$800
- D). Dr Account Receivable \$800 Cr Unearned Revenue
- E). Not enough information given for this answer / None of the above

A33). January 23. Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25th

- A). No journal entry
- B). Dr Prepaid Services \$120 and Cr Cash \$120
- C). Dr Prepaid Services \$120 and Cr Accounts Payable \$120
- D). Dr Selling Expenses \$120 and Cr Cash \$120*
- E). Not enough information given for this answer / None of the above

B3). January 31. Ordered 300 personal cards and 100 brochures. Total paid for the rush order is \$500 (\$1 each personal card and \$2 each brochure). Johanna will start distributing them at the high end event of January 25th

- A). No journal entry
- B). Dr Prepaid Advertising \$500 and Cr Cash \$500*
- C). Dr Prepaid Advertising \$500 and Cr Accounts Payable \$500
- D). Dr Advertising Expense \$500 and Cr Cash \$500
- E). Not enough information given for this answer / None of the above

A34). January 20. Paid \$100 of transportation to the ride sharing service.

- A). No journal entry
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100 *
- E). Not enough information given for this answer / None of the above

A35). January 4 Johanna transfers the tea equipment has a fair market value of \$7,500 and is estimated to last for 5 years and then, if not broken, can be sold for \$1,500.

- A). No journal entry
- B). Dr Tea Equipment \$7,500 and Cr Cash \$7,500
- C). Dr Tea Equipment \$7,500 and Cr Owners Equity \$7,500*
- D). Dr Tea Equipment \$6,000 and Cr Cash \$6,000
- E). Not enough information given for this answer / None of the above

B4). January 23. Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25th

- A). No journal entry
- B). Dr Prepaid Services \$120 and Cr Cash \$120
- C). Dr Prepaid Services \$120 and Cr Accounts Payable \$120
- D). Dr Selling Expenses \$120 and Cr Cash \$120*
- E). Not enough information given for this answer / None of the above

B5). January 4. Johanna transfers the insurance contract for her tea equipment from her to the company as well, the contract started on October 1st 2015. The insurance premium is \$900 per year and it was paid in full when signed on October 1st 2015.

- A). No journal entry
- B). Dr Prepaid Insurance \$900 and Cr Cash \$900
- C). Dr Prepaid Insurance \$675 and Cr Cash \$675
- D). Dr Prepaid Insurance \$675 and Cr Owners Equity \$675*
- E). Not enough information given for this answer / None of the above

B6). January 4. Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

- A). No journal entry*
- B). Dr Prepaid Transportation \$100 and Cr Cash \$100
- C). Dr Prepaid Transportation \$100 and Cr Accounts Payable \$100
- D). Dr Transportation Expense \$100 and Cr Cash \$100
- E). Not enough information given for this answer / None of the above

A36). On January 15th hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20th and promised to pay the rest (\$700) on February 20th.

- A). Dr Equipment \$1,000 Cr .Cash \$300 Cr Equipment Payable \$700
- B). Dr Equipment \$1,000 Cr Equipment Payable \$1,000
- C). Dr Equipment Expense \$1,000 and Cr. Cash \$300 Cr. Accounts Payable \$700*
- D). Dr Equipment Expense \$1,000 and Cr. Accounts Payable \$1,000
- E). Not enough information given for this answer / None of the above

PART 2: INDEPENDENT QUESTIONS

(the remaining questions are totally unrelated to the case of Part 1)

This Section Question 37-50 ONLY APPLIES TO the information provided in each question. They are not related to the “Tea Experience” case.

A37). If a business declared and paid a \$500 dividend, it would appear on which of the following?

- F) Income statement only
- G) Balance sheet only
- H) Statement of retained earnings and cash flow statement*
- I) Statement of retained earnings only
- J) None of the above is correct

B37). If a business declared \$500 dividend, it would appear on which of the following?

- F) Income statement only
- G) Balance sheet only
- H) Statement of retained earnings and cash flow statement
- D) Statement of retained earnings only*
- J) None of the above is correct

A38). Which of the following accounts is always treated as a contra revenue and not as a selling expense?

- F) Purchase returns and allowances
- G) Sales returns and allowances*
- H) Sales revenues
- I) Depreciation expense
- J) None of the above is correct

B38). Which of the following accounts is always treated as a contra asset and not as a liability?

- F) Purchase returns and allowances
- G) Sales returns and allowances
- H) Accumulated Depreciation*
- D) Depreciation expense
- J) None of the above is correct

A39). A company that makes the following journal entry at the time of purchasing inventory is using which of the following inventory systems?

**Dr. Inventory
Cr. Accounts Payable**

- F) Periodic system
- G) Perpetual system*
- H) Just-in-time system
- I) Specific identification system
- J) None of the above

B39). A company that makes the following journal entry at the time of purchasing inventory is using which of the following inventory systems?

Dr. Purchases
Cr. Accounts Payable

- F) Periodic system*
- G) Perpetual system
- H) Just-in-time system
- I) Specific identification system
- J) None of the above

B40). On May 15th Bain Bathtubs signed a lease to rent a storefront starting on June 1st for the next two years at \$1,000 per month. They paid the first two months' rent in advance on signing the lease. On May 15th how would the event be recorded?

- F) Dr. Rent expense \$2,000, Cr. Cash \$2,000
- G) Dr. Rent expense \$24,000, Cr. Cash \$24,000
- H) Dr. Prepaid rent \$2,000, Cr. Cash \$2,000*
- I) Dr. Prepaid rent \$24,000, Cr Cash \$2,000 Cr. Rent payable \$22,000
- J) None of the above

A40). On July 15th Bain Bathtubs signed a lease to rent a storefront starting on June 1st for the next two years at \$1,000 per month. They paid the first two months' rent on formalizing the signing the lease. On July 15th how would the event be recorded?

- F) Dr. Rent expense \$2,000, Cr. Cash \$2,000
- G) Dr. Prepaid Rent \$22,500, Dr Rent Expense \$1,500, Cr. Cash \$2,000, Cr. Rent Payable \$22,000
- H) Dr. Prepaid rent \$2,000, Cr. Cash \$2,000
- I) Dr. Prepaid rent \$500, Dr Rent Expense \$1,500 Cr Cash \$2,000*
- J) None of the above

B41). Toy Company bought a new motor vehicle worth \$50,000. They paid \$5,000 down and took out a loan from TD Bank for the balance. How would the event be recorded?

- F) Dr. Capital assets (truck) \$45,000, Cr. Cash \$5,000, Cr. Bank loan \$40,000
- G) Dr. Capital assets (truck) \$50,000, Cr Cash \$5000, Cr. Bank loan \$45,000*
- H) Dr. Cash \$5,000, Dr. Bank loan \$45,000, Cr. Capital asset (truck) \$45,000,
- I) Dr. Bank loan \$40,000, Cr. Capital assets (truck) \$40,000,
- J) None of the above

A41). Toy Company bought a new motor vehicle worth \$50,000. They paid \$15,000 down and took out a loan from TD Bank for the balance. How would the event be recorded?

- F) Dr. Capital assets (truck) \$35,000, Cr. Cash \$15,000, Cr. Bank loan \$35,000
- G) Dr. Capital assets (truck) \$50,000, Cr Cash \$5,000, Cr. Bank loan \$45,000
- H) Dr. Cash \$15,000, Dr. Bank loan \$35,000, Cr. Capital asset (truck) \$50,000
- I) Dr. Bank loan \$35,000, Dr. Capital assets (truck) \$50,000 Cr. Cash \$15,000 Cr. Bank Loans Payable \$70,000
- J) None of the above*

A42). At the end of the month Main Ltd. determined that the cost of goods that had been sold during the month was \$125,000. How might this information be recorded?

- F) The information is not recorded as no economic event had taken place.
- G) A decrease in inventory of \$125,000 and an increase in expenses of \$125,000*
- H) An increase in inventory of \$125,000 and a decrease in cash of \$125,000.
- I) An increase in expenses of \$125,000 and an increase in accounts payable of \$125,000
- J) None of the above

B42). At the end of the month Main Ltd. determined that the ending balance of inventory was \$125,000. How might this information be recorded?

- F) The information is not recorded as no economic event had taken place.
- G) A decrease in inventory to \$125,000 and an increase in expenses of \$125,000.
- H) An increase in inventory to \$125,000 and a decrease in cash of \$125,000.
- I) An increase in expenses of \$125,000 and an increase in accounts payable of \$125,000
- J) None of the above*

A43). York Inc. had a loan outstanding during the month, and at the end of the month they paid interest expense of \$1000. How would the event be recorded?

- F) A decrease in cash and a decrease in loan payable.
- G) An increase in interest expense and an increase in loan payable.
- H) An increase in interest expense and a decrease in loan payable.
- I) A decrease in cash and an increase in interest expense.*
- J) None of the above

B43). Which of the following economic events would be captured by an accrual accounting system, but not by a cash accounting system?

- F) Receipt of payment for a previous sale made on credit.
- G) Payment of an amount owing on a previous purchase.
- H) Payment of dividends to shareholders.
- I) Use of a previously purchased motor vehicle for company business.*
- J) None of the above

A44). Which of the following would be considered an asset for accounting purposes?

- F) Employees who work for the company
- G) Research into new products for the company
- H) A building owned by the company but rented out*
- I) Advertising spent on attracting customers to the company
- J) None of the above

B44). Which of the following best describes the matching concept in accounting?

- F) Revenues should be recorded in the same period as the expenses related to it are paid.
- G) Revenue should be recorded in the same period as the cash is received.
- H) Expenses should be recorded when paid.
- I) Expenses should be recorded in the same period as the revenue they helped earn is recorded.*
- J) None of the above

A45). On January 15, Frazier Company received merchandise for resale from its normal supplier. The invoice price was \$3,600 with terms of 4/10, n/30 for 100 units of Part #345. The invoice was paid on January 19. Freight costs were \$120 and the company paid \$108 of interest on a loan to buy the inventory. What is the unit cost that should be recorded for each of the 100 units of Part # 345?

- A) \$36.00
- B) \$37.20
- C) \$35.76*
- D) \$34.56
- E) None of the above is correct

ANS: $[(\$3,600 \times 96\%) + 120] \div 100 = \underline{\$35.76}$

B45). On January 15, Frazier Company received merchandise for resale from its normal supplier. The invoice price was \$5,000 with terms of 5/10, n/30 for 100 units of Part #345. The invoice was paid on January 19. Freight costs were \$200 and the company paid \$120 of interest on a loan to buy the inventory. What is the unit cost that should be recorded for each of the 100 units of Part # 345?

- A) \$51.20
- B) \$49.50*
- C) \$48.70
- D) \$48.20
- E) None of the above is correct

ANS: $[(\$5,000 \times 95\%) + 200] \div 100 = \underline{\$49.50}$

B46). Atkinson Corporation sold merchandise with an invoice price of \$3,000 to Zoltan, Inc., with terms of 4/10, n/30. In the books of Zoltan, which of the following is the correct entry to record the payment by Zoltan within the 10 days if the company uses the periodic inventory system and the gross method to record purchases?

- A) Dr Cash 2,880
 Dr Sales Discount 120
 Cr Accounts Receivable 3,000
- B) Dr Accounts Payable 3,000 *
 Cr Cash 2,880
 Cr Purchase Discount 120
- C) Dr Accounts Payable 2,880
 Cr Cash 2,880
- D) Dr Purchases 2,880
 Cr Cash 2,880
- E) None of the above is correct
- ANS B** Dr Accounts Payable 3,000
 Cr Cash 2,880
 Cr Purchase Discount 120

A46). Atkinson Corporation sold merchandise with an invoice price of \$5,000 to Zoltan, Inc., with terms of 5/10, n/30. In the books of Zoltan, which of the following is the correct entry to record the payment by Zoltan within the 10 days if the company uses the perpetual inventory system and the gross method to record purchases?

- A) Dr Accounts Payable 5,000 *
 Cr Cash 4,750
 Cr Purchase Discount 250
- B) Dr Cash 4,750
 Dr Sales Discount 250
 Cr Accounts Receivable 5,000
- C) Dr Accounts Payable 4,750
 Cr Cash 4,750
- D) Dr Purchases 4,750
 Cr Cash 4,750
- E) None of the above is correct
- ANS A** Dr Accounts Payable 5,000
 Cr Cash 4,750
 Cr Purchase Discount 250

A47). Lincoln Glass Company sold goods for \$5,000 to Olivia Company on March 12 on credit. Terms of the sale were 3/10, n/30. At the time of the sale, Lincoln recorded the transaction by debiting accounts receivable for \$5,000 and crediting sales revenue for \$5,000 while Olivia debited Purchases for \$5,000 and credited Accounts Payable for \$5,000. Olivia paid the balance due, less the discount, on March 21. To record the March 21 transaction, Lincoln would debit which of the following?

- A) Cash for \$5,000.
- B) Accounts receivable for \$4,850
- C) Cash for \$4,850*
- D) Accounts receivable for \$5,000.
- E) None of the above is correct

ANS C Cash 4,850

B47). Lincoln Glass Company sold goods for \$5,000 to Olivia Company on March 12 on credit. Terms of the sale were 3/10, n/30. At the time of the sale, Lincoln recorded the transaction by debiting accounts receivable for \$5,000 and crediting sales revenue for \$5,000 while Olivia debited Purchases for \$5,000 and credited Accounts Payable for \$5,000. Olivia paid the balance due, less the discount, on March 21. To record the March 21 transaction, Olivia would debit which of the following?

- A) Cash for \$5,000.
- B) Accounts payable for \$4,850
- C) Cash for \$4,850
- D) Accounts payable for \$5,000*
- E) None of the above is correct

ANS D Accounts Payable 5,000

A48). The 2015 records of Western Company showed beginning inventory, \$80,000; cost of goods sold, \$460,000; and ending inventory, \$90,000. The purchases for 2015 equal:

- A) \$470,000*
- B) \$480,000
- C) \$450,000
- D) \$410,000
- E) None of the above is correct

ANS A 470,000

B48). In what order are assets listed on a balance sheet?

- A) Dollar amount (largest first).
- B) Date of acquisition (earliest first).
- C) Ease of conversion to cash*
- D) Importance to the operation of the business
- E) None of the above is correct

ANS C

B49). Which of the following phases of the accounting information processing cycle is performed at the end of the accounting period?

- A) Liquidation
- B) Peer reviews
- C) Adjusting entries*
- D) Transaction entries
- E) None of the above is correct

ANS C

A49). A company purchases \$25,000 of inventory in January 2016 and will pay for it in March 2016, which of the following statements is false?

- A) The company will report accounts payable of \$25,000 in February 2016.
- B) The statement of cash flows will report an operating cash outflow of \$25,000 in March 2016.
- C) The income statement will report the \$25,000 as cost of goods sold in January 2016 when they are purchased.*
- D) None of the above is false
- E) All of the above are false

ANS C

A50). Apartments-for-Rent Corporation received cash of \$7,200 on August 1, 2015 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue.

The December 31, 2015 adjusting entry shall be:

- A). Debit Rent Revenue and credit Unearned Rent, \$3,000
- B). Debit Rent Revenue and credit Unearned Rent, \$4,200*
- C). Debit Unearned Rent and credit Rent Revenue, \$3,000
- D). Debit Cash and credit Unearned Rent, \$4,200
- E) None of the above is correct

ANS B expense for 2015 is 3,000 while the rest belongs to 2016

B50). In what order are liabilities listed on a balance sheet?

- A) Dollar amount (largest first)
- B) Due date (earliest first)*
- C) Ease of conversion to cash
- D) Importance to the operation of the business
- E) None of the above is correct

ANS B

End of exam