

York University AP/ADMS 2500.03
Introduction to Financial Accounting
Midterm Examination #1 – Topics A, B and C

Time: 3 hours

Fall 2017

Questions: 40 + 1 Problem

Instructions:

1. **Submit:** Only page 23/24 (last one) of this exam and 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 (pink Scantron 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 ‘B’ and Code is your Section (in the left column, just mark one letter).**
 - 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. **Pages 23/24 of the exam (your writing to solve a problem):**
 - Write your name, student number and section at the top of the page in a legible manner.
 - At the top right corner of the page write the order number to be provided by the invigilator when checking your picture ID (if you are not in the class list you will not have an order number and will not be allowed to continue with the exam; if you are in the wrong room, you will be escorted to the proper room – no extra time to be provided).
 - Solve the problem and answer all questions in the space provided with blue or black ink pen (not pencil). Bring several pens in case one breaks. The marker will not consider answers provided in pencil or colored ink that is not blue or black.
4. **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 must be placed on your desk and will be examined by invigilators. If there are any loose pages or handwriting in the dictionary, it will be seized and you will be charged with academic dishonesty.
 - In 2500, invigilators answer no questions of interpretation. They will pass along questions regarding possible errors/typos/missing data to the head invigilator. If you believe a multiple choice question contains an error and do not receive a response, make a detailed note at the back of your answer (pink) sheet.
5. **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.

- Failing to submit the pink Scantron sheet and/or pages 23/24 of your exam will result in a zero in the exam (if you submit one but not the other, marks will be provided for the one submitted and zero for the one not submitted).
- 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, the choice of None of the above does indeed represent a frequent correct choice to questions.

6. **Exam room regulations:**

- All personal belongings should be placed 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. No need to sign out from the exam, if a student has signed in but no exam is collected the mark to be reported is zero. 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 room 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 minutes.
- When time is called, the proctors will go down the rows collecting your answer sheets and page 23 with the problem's solution, you can keep this exam paper for your records. They will not wait and they will not accept your sheets once they have passed. Any violation of this protocol will result in a grade of zero recorded for the exam.

7. **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 within 30 minutes of the alarm so that exams can recommence. You will be told after this time whether to reenter the room and recommence the exam or to go home.

8. **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 or a verbal warning being made by the course director. Second instance results in seizure of paper.

9. **Special Instructions**

- This exam is divided into two parts. Part 1 is a minicase that is related to a series of multiple choice questions based on the case. While an attempt has been made to minimize 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.
- Part 2 is a problem based on a different and independent scenario unrelated to the case of Part 1.

10. **Reminder**

This is a reminder to submit the pink mark sense sheet and pages 23/24 only; this exam paper will not be collected.

Ensure your name is on the pink mark sense sheet and that you have marked your answers in this paper so you can check your answers when the correct answers are published in the course website.

If you have signed in but no scantron (pink) sheet is handed in, the mark obtained in part 1 of the e exam is a zero. If you have signed in but no Pages 23/24 with the solution to the problem is handed in, the mark obtained in part 2 of the e exam is a zero. In both instances the administrative process for academic dishonesty might be initiated.

Part 1 - Case: Walk with Bob

Questions 1 to 38 are based on this case and the remaining exam questions are independent of the case. 2 Marks for each correct answer.

Bob has just retired at 52 and has plenty of time on his hands. One day his next door neighbor asked him to take care of her dog while she was away. The next door neighbor is a lovely 87 year old lady who lives with a very well educated Great Dane. The neighbor would be away for a minor surgery and unable to walk and talk to her dog. Bob offered to walk and talk with the dog. The recovery period from the surgery extended for some days so Bob took care of the Great Dane for several more days, and the care now included other non-essential things such as washing the dog. On his daily walks he met several people that shared with him that although they love their dogs, they do not have the energy to walk them for more than 5 minutes. One day he decided to walk the dog of another neighbor and by the end of the week he was enjoying a full day of walks.

One of the old ladies that asked him to walk her dog invited him for tea, another made him a present (home baked soft cookies) and another offered to pay him. By the end of March, Bob realized that he would convert his recently discovered passion into a side business, which would generate some extra money while channeling all his energy.

Bob Thoron contacted a lawyer for advice about incorporating. Bob had heard stories from friends about dogs with bad behavior whose owners tried to sue their walkers and he certainly did not want to expose himself to that kind of risk. The legal firm ‘The 6 Law’ provided the necessary legal advice and did all the necessary paper work to incorporate as a Canada Business Corporation. Initial capitalization allowed for 100 no par value shares. Bob and his mom were named as Directors of the Corporation which was called “Walk with Bob Service Ltd.”

Bob had accumulated savings and contributed his money in exchange for 50 of the shares. This was deposited into a new corporate bank account. The bank account is a standard commercial chequing account that gave cheques and monthly statements for a monthly fee.

Bob’s interest was to walk dogs, not keeping tabs on his accounts; therefore he hired you to be his accountant. You have explained your fee and Bob has agreed to retain you for the whole year. You, the accountant, informed Bob that if his company would use part of his house to conduct business (e.g. wash the dogs); the company can pay rent to Bob for its use. The rent has to be reasonable for the Canada Revenue Agency. Bob was confused about your advice, so you gave him a form to fill out every time a transaction occurred, the form looks like this:

Day	Nature of Transaction	Amount	Cash collected	Cash Paid
	Totals for the month		\$	\$
	Cash at hand - end of month		\$	

On his second day of walking the Great Dane Bob realized his company needed some sort of third party liability insurance just in case a dog went rough on other dogs or people. He contacted an old acquaintance of his that works for an insurance company and asked for advice. His friend suggested a product that was just right for his needs, it was not expensive so Bob signed off on an annual contract.

Dog walking does not need any equipment, but washing them was complicated without the right equipment. So after washing twice the Great Dane he decided to get washing and drying equipment and installed them in one of the bathrooms of his house. He selected the washroom that has the shower. He estimates all the equipment will last 2 years and will have a residual value of 10%.

As soon as operations started, Bob purchased some office supplies that would allow him to keep a paper trail of each dog walked, washed and who's their owner. Just in case he bought plastic tags that were attached to each dog so he did not mix them up when providing the services and returning them to their homes and owners. During September he has used 40% of them.

Shampoo, conditioner, soap, body wash and other dog beauty specific supplies were bought. However the largest items of supplies are treats, as dogs expect to receive treats and behave extremely well when they associate their good behavior with treats. So Bob had plenty of treats.

Most of Bob's customers are in their 80s and with some mobility issues therefore they cannot go to pet stores to buy toys, accessories or even balanced food. Bob saw a great opportunity here and decided to buy in bulk the most common items asked by his customers. The terms of sale were 50% cash on delivery and the other 50% in 30 days (ignore HST for this exam). He did a very good job at sourcing those products, allowing him to have a large gross margin and still be competitive matching the prices of the local posh pet store.

Bob knew all his customers and was comfortable in collecting his service fees from them once per week. At the end of the week he would prepare a summary note of the walks, washes, and merchandising delivered and would collect the money from the customers (Bob accepted cash, cheques, direct bank deposits or interact). Given the volume, he would submit the bills on Thursdays or Saturdays (he did not provide service on Sundays).

Some customers were so pleased with his job that they asked him to pay in advance. One gentleman considered the bank charged too much to print cheques so he issues a large cheque to Bob on account for future services. Bob received and cashed it, at the end of each week he would show the customer what the balance left is given the services consumed so far.

Bob started operations on September 1st 2017 and today, October 1st, submitted to you the form detailing all transactions so you can summarize them and report about his business.

Details of transactions (sales and disbursement records):

Details of transactions (sales and disbursement records):

Month of: September 2017

Day	Nature of Transaction	Amount	Cash collected	Cash Paid
1	Set up company and legal advice	\$ 1,000		\$ 800
1	Open bank account	\$ 20,000	\$20,000	
2	Insurance - paid 12 months in full	\$ 1,200		\$ 1,200
2	Equipment and installation	\$ 10,000		\$ 7,000
2	Purchase office supplies	\$ 1,000		\$ 1,000
2	Purchase supplies ⁽¹⁾	\$ 5,000		\$ 5,000
3	Purchase of goods for resale ⁽²⁾	\$ 8,000		\$ 4,000
7	Submitted bills to customers	\$ 220	\$ -	
9	Submitted bills to customers	\$ 650	\$ 100	
14	Submitted bills to customers	\$ 300	\$ 200	
16	Submitted bills to customers	\$ 850	\$ 800	
21	Submitted bills to customers	\$ 2,000	\$ 100	
21	Customer paid for future services	\$ 1,000	\$ 1,000	
23	Submitted bills to customers	\$ 3,200	\$ 300	
28	Submitted bills to customers	\$ 2,600	\$ 1,200	
30	Pay rent for use of house in September	\$ 500		\$ 500
30	Submitted bills to customers	\$ 1,800	\$ 500	
30	Accounting services for the month of September	\$ 250		\$ -
	Totals for the month		\$24,200	\$19,500
	Cash at hand - end of month		\$ 4,700	

Notes:

(1) The supplies available at the end of September 30th are worth \$2,900

(2) Inventory available at the end of the month is worth \$5,000

Required:

1) Prepare journal entries and “T” Accounts in ACCRUAL Basis for this case using the following chart of accounts and then answer the questions.

Cash (use only one account for all cash/cheque transactions)	Accounts Payable (AP - only for inventory purchases)	Accumulated Depreciation Equipment
Inventory	Rent Payable	Advertising Expense
Prepaid Supplies	Other Payables	Depreciation Expense
Prepaid Office Supplies	Advances from Customers	Office Supplies Expense
Prepaid Insurance	Bank Loan	Accountant Expense
Organization Costs	Capital contribution	Insurance Expense
Equipment	Insurance Payable	Supplies Expense
Prepaid Rent	Interest Payable	Rent Expense
Prepaid Advertising		Wages Expense
Accounts Receivable (AR)	Revenue	Interest Expense
	Cost of Goods Sold	Phone Expense

2) Prepare “T” Accounts in CASH Basis for this case using the relevant accounts from the chart of accounts provided above and then answer the questions.

Students are asked to round numbers to fit 2 decimal places in all questions. When the answer obtained is not materially different from one of the stated alternatives, students are advised to select that alternative and not “e) none of the above”.

If you think that for some reason that an assumption is called for, then also state it clearly on your exam paper (at the back of the pink scantron sheet).

It is estimated that you will need 60 minutes to prepare the T accounts, Income statement and Balance Sheet

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Part 1: Questions on the Case

This Section Questions ONLY APPLIES TO ACCURAL ACCOUNTING for the case Walk with Bob

This section's questions are from the unadjusted Trial Balance

- 1 What was the unadjusted Prepaid Insurance balance at the end of the month? **B1**
 - a) \$1,100
 - b) \$1,200
 - c) \$100
 - d) Zero, there is no Prepaid Insurance in the unadjusted trial balance
 - e) None of the above are correct

- 2 What was the unadjusted Cash balance at the end of the month? **A1 B2**
 - a) \$24,200
 - b) \$19,500
 - c) \$4,700
 - d) \$4,450
 - e) None of the above are correct

- 3 What was the unadjusted Inventory balance at the end of the month? **A2**
 - a) \$8,000
 - b) \$4,000
 - c) \$2,000
 - d) Zero, there is no Inventory in the unadjusted trial balance
 - e) None of the above are correct

- 4 What was the unadjusted Prepaid Supplies balance at the end of the month? **A3**
 - a) \$10,000
 - b) \$8,000
 - c) \$5,000
 - d) Zero, there is no Prepaid Supplies in the unadjusted trial balance
 - e) None of the above are correct

- 5 What was the unadjusted Prepaid Office Supplies balance at the end of the month? **B3**
 - a) \$2,000
 - b) \$1,000
 - c) \$500
 - d) Zero, there is no Prepaid Office Supplies in the unadjusted trial balance
 - e) None of the above are correct

- 6 What was the unadjusted Equipment balance at the end of the month? **A4 B4**
- a) \$10,000
 - b) \$7,000
 - c) \$3,000
 - d) Zero, there is no equipment in the unadjusted trial balance
 - e) None of the above are correct
- 7 What was the unadjusted Accounts Payable (AP) balance at the end of the month? **A5 B5**
- a) \$8,450
 - b) \$7,450
 - c) \$4,000
 - d) Zero, there is no AP in the unadjusted trial balance
 - e) None of the above are correct
- 8 What was the unadjusted Accounts Receivables (AR) balance at the end of the month? **A6 B6**
- a) \$9,520
 - b) \$8,420
 - c) \$7,420
 - d) Zero, there is no AR in the unadjusted trial balance
 - e) None of the above are correct
- 9 What was the unadjusted Cost of Goods Sold (CGS) balance at the end of the month? **A7 B7**
- a) \$8,000
 - b) \$4,000
 - c) \$3,000
 - d) Zero, there is no CGS in the unadjusted trial balance
 - e) None of the above are correct
- 10 What was the unadjusted Insurance Expense balance at the end of the month? **A8 B8**
- a) \$1,100
 - b) \$1,200
 - c) \$100
 - d) Zero, there is no Insurance Expense in the unadjusted trial balance
 - e) None of the above are correct

This section's questions are from the adjusted Trial Balance or taken directly from the financial statements. Use ACCRUAL ACCOUNTING.

- 11 What was the adjusted Revenue balance at the end of the month? **A9**
- a) \$4,200
 - b) \$8,620
 - c) \$11,620
 - d) \$14,620
 - e) None of the above are correct
- 12 What was the adjusted Cost of Good Sold balance at the end of the month? **B9**
- a) \$8,000
 - b) \$4,000
 - c) \$3,000
 - d) \$1,000
 - e) None of the above are correct
- 13 What was the Gross Margin shown in the Income Statement for the Month? **A10 B10**
- a) \$4,200
 - b) \$8,620
 - c) \$7,620
 - d) \$11,620
 - e) None of the above are correct
- 14 What was the adjusted Depreciation Expense balance at the end of the month? **A11**
- a) \$417
 - b) \$292
 - c) \$263
 - d) \$375
 - e) None of the above are correct
- 15 What was the adjusted Insurance Expense balance at the end of the month? **A12 B11**
- a) \$1,200
 - b) \$1,100
 - c) \$200
 - d) \$100
 - e) None of the above are correct
- 16 What was the adjusted Rent Expense balance at the end of the month? **B12**
- a) There is no rent expense
 - b) \$750
 - c) \$500
 - d) \$250
 - e) None of the above are correct

- 17 What was the adjusted Supplies Expense balance at the end of the month? **A13 B13**
- a) \$5,000
 - b) \$2,900
 - c) \$2,100
 - d) \$800
 - e) None of the above are correct
- 18 What was the adjusted Office Supplies Expense balance at the end of the month? **A14 B14**
- a) There is no office supplies expense
 - b) \$600
 - c) \$400
 - d) \$1,000
 - e) None of the above are correct
- 19 What was the adjusted Accountant Expense balance at the end of the month? **B15**
- a) There is no Accountant Expense
 - b) \$1,000
 - c) \$500
 - d) \$250
 - e) None of the above are correct
- 20 What was the Net Income reported in the Income Statement for the month? **A15 B16**
- a) less than \$0 (net loss)
 - b) between \$0 and \$ 3,200
 - c) between \$ 3,201 and \$ 5,000
 - d) between \$ 5,001 and \$10,000
 - e) more than \$ 10,000
- 21 What was the adjusted Cash balance at the end of the month?
- a) This account is not reported in the financial statements
 - b) \$ 24,200
 - c) \$ 19,500
 - d) \$ 4,700
 - e) None of the above balances are correct
- 22 What was the adjusted Accounts Receivables balance at the end of the month? **A16 B17**
- a) This account is not reported in the financial statements
 - b) \$9,520
 - c) \$8,420
 - d) \$7,420
 - e) None of the above balances are correct

- 23 What was the adjusted Prepaid Supplies balance at the end of the month? **A17**
- a) This account is not reported in the financial statements
 - b) \$8,000
 - c) \$5,000
 - d) \$2,900
 - e) None of the above balances are correct
- 24 What was the adjusted Prepaid Office Supplies balance at the end of the month? **B18**
- a) This account is not reported in the financial statements
 - b) \$2,000
 - c) \$1,000
 - d) \$ 600
 - e) None of the above balances are correct
- 25 What was the adjusted Inventory balance at the end of the month? **A18 B19**
- a) This account is not reported in the financial statements
 - b) \$8,000
 - c) \$5,000
 - d) \$3,000
 - e) None of the above balances are correct
- 26 What was the adjusted Prepaid Insurance balance at the end of the month? **A19 B20**
- a) This account is not reported in the financial statements
 - b) \$1,200
 - c) \$1,100
 - d) \$100
 - e) None of the above balances are correct
- 27 What was the adjusted Prepaid Rent balance at the end of the month? **A20 B21**
- a) This account is not reported in the financial statements
 - b) \$1,000
 - c) \$500
 - d) \$250
 - e) None of the above balances are correct
- 28 What was the adjusted Equipment (gross) balance at the end of the month? **A21**
- a) This account is not reported in the financial statements
 - b) \$10,000
 - c) \$ 7,000
 - d) \$ 3,000
 - e) None of the above balances are correct

- 29 What was the adjusted Accumulated Depreciation Equipment balance at the end of the month? A22 B22
- a) \$417
 - b) \$292
 - c) \$263
 - d) \$375
 - e) None of the above balances are correct
- 30 What was the adjusted Organizational Costs balance at the end of the month? A23 B23
- a) This account is not reported in the financial statements
 - b) \$1,000
 - c) \$ 800
 - d) \$ 200
 - e) None of the above balances are correct
- 31 What was the adjusted Accounts Payable balance at the end of the month? A24 B24
- a) This account is not reported in the financial statements
 - b) \$8,450
 - c) \$7,450
 - d) \$4,000
 - e) None of the above balances are correct
- 32 What was the adjusted Insurance Payable balance at the end of the month? A25
- a) This account is not reported in the financial statements
 - b) \$1,200
 - c) \$1,100
 - d) \$100
 - e) None of the above balances are correct
- 33 What was the adjusted Interest Payable balance at the end of the month? B25
- a) This account is not reported in the financial statements
 - b) \$500
 - c) \$250
 - d) \$100
 - e) None of the above balances are correct
- 34 What was the adjusted Other Payables balance at the end of the month? A26 B26
- a) This account is not reported in the financial statements
 - b) \$4,450
 - c) \$3,450
 - d) \$450
 - e) None of the above balances are correct

35 What was the adjusted Advances from customers balance at the end of the month? **A27**

- a) This account is not reported in the financial statements
- b) \$4,000
- c) \$3,450
- d) \$1,000
- e) None of the above balances are correct

36 What was the adjusted Capital Contribution balance at the end of the month? **B27**

- a) This account is not reported in the financial statements
- b) \$ 24,200
- c) \$ 20,000
- d) \$ 19,500
- e) None of the above balances are correct

What was the total of Current Assets reported in the Balance Sheet at the end of the month?

37 **A28**

- a) less than \$7,668
- b) between \$7,668 and \$15,335
- c) between \$15,336 and \$20,447
- d) between \$20,448 and \$26,582
- e) more than \$26,582

What was the total of Non Current Assets reported in the Balance Sheet at the end of the month? **B28**

- a) less than \$4,781
- b) between \$4,781 and \$ 9,562
- c) between \$ 9,563 and \$ 12,431
- d) between \$ 12,432 and \$ 14,919
- e) more than \$ 14,919

What was the total of Liabilities reported in the Balance Sheet at the end of the month? **A29**

39 **B29**

- a) less than \$6,760
- b) between \$6,760 and \$ 8,787
- c) between \$ 8,788 and \$ 10,985
- d) between \$ 10,986 and \$ 18,675
- e) more than \$ 18,675

40 What was the total of Assets reported in the Balance Sheet at the end of the month? **A30 B30**

- a) less than \$3,751
- b) between \$3,751 and \$ 15,004
- c) between \$ 15,005 and \$ 30,010
- d) between \$ 30,011 and \$ 33,012
- e) more than \$ 33,012

This Section Question ONLY APPLIES TO CASH BASIS ACCOUNTING for Walk with Bob case during the month of September 2017.

Prepare “T” Accounts in CASH Basis for this case using the following relevant accounts from the chart of accounts provided above and then answer the questions.

If you think that for some reason that an assumption is called for, then also state it clearly on your exam paper (at the back of the pink scantron sheet).

It is estimated that you will need 30 minutes to prepare the T accounts, Income statement and Balance Sheet

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This section's questions are from the adjusted Trial Balance or taken directly from the financial statements. Use CASH ACCOUNTING.

- 41 What is the Cash Balance at the end of the month?
- a) \$24,200
 - b) \$19,500
 - c) \$4,700
 - d) \$4,450
 - e) None of the above balances are correct
- 42 What is the total Revenue collected during the month? A31 B31
- a) \$4,200
 - b) \$8,620
 - c) \$11,620
 - d) \$14,620
 - e) None of the above balances are correct
- 43 What is the total Office Supplies Expense paid during the month? A32 B32
- a) Zero, there is no Office Supplies Expense when using cash accounting
 - b) \$1,000
 - c) \$600
 - d) \$400
 - e) None of the above balances are correct
- 44 What is the balance of Prepaid Office Supplies at the end of the month (after AJE)? A33 B33
- a) Zero, this account is not presented in the financial statements
 - b) \$1,000
 - c) \$600
 - d) \$400
 - e) None of the above balances are correct
- 45 What is the total Equipment Expense paid during the month? A34 B34
- a) Zero, this account is not presented in the financial statements
 - b) \$ 10,000
 - c) \$ 7,000
 - d) \$ 3,000
 - e) None of the above balances are correct
- 46 What is the balance of Prepaid Insurance at the end of the month (after AJE)? B35
- a) Zero, this account is not presented in the financial statements
 - b) \$1,200
 - c) \$1,100
 - d) \$100
 - e) None of the above balances are correct

- 47 What is the total Accountant Expense paid during the month? **A35**
- Zero, this account is not presented in the financial statements
 - \$ 250
 - \$ 500
 - \$ 1,000
 - None of the above balances are correct
- 48 What is the total Insurance Expense paid during the month? **A36 B36**
- Zero, this account is not presented in the financial statements
 - \$ 1,200
 - \$ 1,100
 - \$ 100
 - None of the above balances are correct
- 49 What is the total Cost of Goods Sold Expense paid during the month? **A37 B37**
- Zero, this account is not presented in the financial statements
 - \$ 8,000
 - \$ 4,000
 - \$ 3,000
 - None of the above balances are correct
- 50 What was the Net Income for the month? **A38 B38**
- | | | | | |
|----|-----------|-----------|-------|-----------|
| | | (net | | |
| a) | less than | \$0 | loss) | |
| b) | between | \$0 | and | \$ 3,200 |
| c) | between | \$ 3,201 | and | \$ 5,000 |
| d) | between | \$ 5,001 | and | \$ 10,000 |
| e) | more than | \$ 10,000 | | |

This is the end of the questions related with the case Walk with Bob. The remaining questions of Part 1 are independent from the case.

PART 1: INDEPENDENT QUESTIONS – Bonus Marks

(the remaining questions are totally unrelated to the case Walk with Bob of Part 1. 1 Mark for each question)

This Section Question ONLY APPLIES TO the information provided in each question. They are not related to the case.

40a. How many hours did you spend understanding introductory accounting and preparing for this exam? All answers are correct, just be sincere in your answer.

- A) Less than 10 hours each week since the start of the course
- B) More than 10 hours but less than 15 hours each week since the start of the course
- C) More than 15 hours but less than 20 hours each week since the start of the course
- D) More than 20 hours each week since the start of the course
- E) None of the above

40b. Which resources you used to study for this course and mid term exam? Check all that apply. All answers are correct, just be sincere in your answer.

	Resource	Yes	No
A)	One textbook including problems with solutions		
B)	More than one textbook including problems with solutions		
C)	Past exams in Moodle		
D)	Attending classes		
E)	Tutorial sessions		
F)	PASS sessions (New College)		
G)	Support external to York		
H)	Other(s) – Please explain below		

End of Part 1 of the exam

PART 2: PROBLEM (the remaining questions are totally unrelated to the case Walk with Bob of Part 1)

Topic A - You have received the following information about a company created on August 1st 2017:

Income statement for the period ended August 31st 2017

Revenue	\$1,000
Rent Expense	(\$300)
Supplies Expense	(\$200)
Depreciation Expense	(\$100)
Net income for the period	\$400

Balance Sheet as of August 31st 2017

Cash	\$ 50	Supplies Payable	\$200
Accounts Receivables	\$500	Equipment Payable	\$500
Prepaid Rent*	\$900		
Equipment**	\$550	Contributed Capital	\$800 (Owners' Equity)
Accumulated Depreciation	(\$100)	Retained Earnings	<u>\$400</u>
Total assets	\$1,900	Total Liabilities and OE	\$1,900

* On August 1st paid \$1,200 for 4 months of rent.

**Equipment is expected to be used for 5 months with a residual value of \$50

During the month of September the following happened:

Sep 10th Buys \$500 of supplies on account

Sep 15th Provides a service to a customer for \$800, the customer promises to pay by Sep 30th

Sep 18th Collects \$300 from customers

Sep 26th With cheque #4 pays \$200 of supplies owed on account

Sep 30th At the end of the day there were \$200 worth of supplies available to be used.

Required:

- 1) Prepare journal entries and AJE for the month of September and post them in T accounts (14 marks)
- 2) Prepare financial statements as of Sep 30th (2 marks)
- 3) Answer the following 4 questions in the space provided (8 marks):
 - a) If a customer cannot pay his bill, what journal entry is needed?
 - b) Explain how Sept 10th transaction would be recorded using the 'backwards system' and whether this is acceptable or not
 - c) As a potential lender, would you consider giving this company a loan of \$1,000. Explain why or why not?
 - d) Suggest two items that need to be better managed in the future.

Use the following chart of accounts:

Cash	Prepaid Rent	Supplies	Accounts Receivable
Supplies Payable	Accumulated Depreciation	Revenue	Rent Expense
Supplies Expense	Equipment	Cost of Goods Sold	Retained Earnings
Depreciation Expense	Equipment Payable	Contributed Capital (Owners' Equity)	

PART 2: PROBLEM (the remaining questions are totally unrelated to the case Walk with Bob of Part 1)
Topics B&C - You have received the following information about a company created on August 1st 2017:

Income statement for the period ended August 31st 2017

Revenue	\$ 500
Rent Expense	(\$100)
Supplies Expense	(\$200)
Depreciation Expense	<u>(\$ 50)</u>
Net income for the period	\$150

Balance Sheet as of August 31st 2017

Cash	\$ 50	Supplies Payable	\$200
Accounts Receivables	\$500	Equipment Payable	\$500
Prepaid Rent*	\$1,100		
Supplies	\$100		
Equipment**	\$650	Contributed Capital	\$1,500 (Owners' Equity)
Accumulated Depreciation	<u>(\$ 50)</u>	Retained Earnings	<u>\$150</u>
Total assets	\$2,350	Total Liabilities and OE	\$2,350

* On August 1st paid \$1,200 for 12 months of rent.

**Equipment is expected to be used for 12 months with a residual value of \$50

During the month of September the following happened:

Sep 10th Buys \$500 of supplies on account

Sep 15th Provides a service to a customer for \$400, the customer promises to pay by Sep 30th

Sep 18th Collects a deposit of \$100 from a customer for a service scheduled for October 5th

Sep 26th With cheque #4 pays \$150 of equipment owed on account

Sep 30th At the end of the day there were \$400 worth of supplies available to be used.

Required:

- 4) Prepare journal entries and AJE for the month of September and post them in T accounts (14 marks)
- 5) Prepare financial statements as of Sep 30th (2 marks)
- 6) Answer the following 4 questions in the space provided (8 marks):
 - e) If a customer cannot pay his bill, what journal entry is needed?
 - f) Explain how Sept 10th transaction would be recorded using the 'backwards system' and whether this is acceptable or not
 - g) As a potential lender, would you consider giving this company a loan of \$1,000. Explain why or why not?
 - h) Suggest two items that need to be better managed in the future.

Use the following chart of accounts:

Advances from Customers	Prepaid Rent	Supplies	Accounts Receivable
Supplies Payable	Accumulated Depreciation	Revenue	Rent Expense
Supplies Expense	Equipment	Cost of Goods Sold	Retained Earnings
Depreciation Expense	Equipment Payable	Contributed Capital (Owners' Equity)	Cash

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York University AP/ADMS 2500.03
Introduction to Financial Accounting
Midterm Examination #1 – Topic A – Section: _____

Student Name: _____ **Student Number:** _____

Page to be handed in for marking (must go together with the pink Scantron sheet)

1) Journal entries + AJE for the month of September and posting (14 marks)

Journal entries

T accounts

2) Financial Statements as of Sep 30th (2 marks)

Income Statement

Balance Sheet

3) Answer the following 4 questions in the space provided (8 marks):

a) If a customer cannot pay his bill, what journal entry is needed?

.....
.....

b) Explain how Sept 10th transaction would be recorded using the 'backwards system' and whether this is acceptable or not

.....
.....

c) As a potential lender, would you consider giving this company a loan of \$1,000. Explain why or why not?

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d) Suggest two items that need to be better managed in the future.

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Solutions

Part 1: Case Walk with Bob Topics A & B only

Month of: September 2017

Day	Nature of Transaction	Amount	collected	Paid
1	Set up company and legal advice	\$1,000		\$800
1	Open bank account	\$20,000	\$20,000	
2	Insurance - paid 12 months	\$1,200		\$1,200
2	Equipment and installation	\$10,000		\$7,000
2	Purchase office supplies	\$1,000		\$1,000
2	Purchase supplies	\$5,000		\$5,000
3	Purchase of goods for resale	\$8,000		\$4,000
7	Submitted bills to customers	\$220	\$ -	
9	Submitted bills to customers	\$650	\$100	
14	Submitted bills to customers	\$300	\$200	
16	Submitted bills to customers	\$850	\$800	
21	Submitted bills to customers	\$2,000	\$100	
21	Customer paid future services	\$1,000	\$1,000	
23	Submitted bills to customers	\$3,200	\$300	
28	Submitted bills to customers	\$2,600	\$1,200	
30	Pay rent for use of house	\$500		500
30	Submitted bills to customers	\$1,800	\$500	
30	Accounting services	\$50		\$ -
	Totals for the month		\$24,200	\$19,500
	Cash at hand - end of month		\$4,700	

AJE Depreciation	9000	375	Depreciation per month
Insurance	100		
Office Supplies consumed	400		
Supplies consumed	2100		
Cost of goods sold	3000		

Accrual accounting =>	Revenue	\$11,620	\$4,200	<== Cash
	Cost of goods sold	3000	\$4,000	
Payables AR	Gross margin	\$8,620		
\$200	Expenses	Depreciation	375	\$7,000
		Insurance	100	\$1,200
\$3,000		Office Supplies	400	\$1,000
		Supplies used	2100	\$5,000
\$0		Rent	\$500	\$ 500
\$4,000		Accountant	\$250	\$ 800 Legal fees
	Net Income	<u>\$4,895</u>		\$(15,300)
\$220	Assets	Cash	\$4,700	\$4,700
\$550		AR	\$8,420	
\$100		Supplies	\$2,900	
\$50		Office Supplies	\$600	
\$1,900		Inventory	\$5,000	
\$0		Prepaid Insurance	<u>\$1,100</u>	
\$2,900	Current Assets		\$22,720	
\$1,400		Equipment	\$10,000	
		AD Equip	-375	
\$1,300		Organization costs	\$1,000	
\$ 250	Non current assets		<u>\$10,625</u>	
	Total assets		<u>\$33,345</u>	
		AP	\$4,000	
		Other payables	\$3,450	
		Advances/customers	\$1,000	
	Liabilities		\$8,450	
		OE capital	\$20,000	20000
		Net Income	<u>\$4,895</u>	
	Total		<u>\$33,345</u>	

Solutions Topic C only

Part 1: Case Walk with Bob

Month of: September 2017

Accrual accounting =>

Day	Nature of Transaction	Amount	Collected	Paid
1	Set up company and legal advice	\$ 1,000		
1	Open bank account	\$10,000	\$10,000	
2	Insurance - paid 12 months in full	\$ 1,200		\$ 1,200
2	Equipment and installation	\$10,000		\$ 1,000
2	Purchase office supplies	\$ 1,000		\$ 1,000
2	Purchase supplies	\$ 3,000		\$ 3,000
3	Purchase of goods for resale	\$ 6,000		\$ 3,000
7	Submitted bills to customers	\$ 220	\$ -	
9	Submitted bills to customers	\$ 650	\$ 100	
14	Submitted bills to customers	\$ 1,300	\$ 900	
16	Submitted bills to customers	\$ 850	\$ 1,000	
21	Submitted bills to customers	\$ 2,000	\$ 1,010	
21	Customer paid for future services	\$ 1,000	\$ 1,000	
23	Submitted bills to customers	\$ 3,200	\$ 2,000	
28	Submitted bills to customers	\$ 2,600	\$ 1,850	
30	Pay rent for use of house	\$ 500		\$ 500
30	Submitted bills to customers	\$ 1,800	\$ 2,000	
30	Accounting services	\$ 250		\$ 150
	Totals for the month		\$19,860	\$ 9,850
	Cash at hand - end of month		\$10,010	

AP	AR
1,000	
-	
9,000	
-	
3,000	
	\$220
	\$550
	\$400
	(\$150)
	\$990
	\$0
	\$1,200
	\$750
-	
	(\$200)
100	

Revenue	\$12,620	\$ 9,860	<= Cash
Cost of goods sold	4000	\$3,000	
Gross margin	\$8,620		
Expenses			
Depreciation	375	\$1,000	
Insurance	100	\$1,200	
Office Supplies used	400	\$1,000	
Supplies consumed	1800	\$3,000	
Rent	\$500	\$ 500	
Accountant	\$250	\$ 150	
Net Income	\$5,195	\$ 10	
Assets			
Cash	\$10,010	\$10,010	
AR	\$3,760		
Supplies	\$1,200		
Office Supplies	\$600		
Inventory	\$2,000		
Prepaid Insurance	\$1,100		
Current Assets	\$18,670		
Equipment	\$10,000		
AD Equip	-375		
Organization costs	\$1,000		
Non current assets	\$10,625		
Total assets	\$29,295		
Liabilities			
AP	\$3,000		
Other payables	10,100		
Advances/cust.	\$1,000		
Liabilities	\$14,100		
OE capital	\$10,000	20000	
Net Income	\$5,195		
Total	\$29,295		

AJE Depreciation	9000	375	Depreciation month
Insurance	100		
Office Supplies consumed	400		
Supplies consumed	1800		
Cost of goods sold	4000		

Question	Correct answer topic A	Correct answer topic B	Correct answer topic C
1	C	B	B
2	A	C	C
3	C	B	A
4*	A	A	C
5*	C	C	B
6*	B	B	A
7*	D	D	C
8*	D	D	B
9	C	C	D
10*	B	B	D
11	D	D	C
12	D	C	C
13*	C	C	B
14*	C	C	C
15	C	D	D
16	C	C	D
17	D	C	C
18	C	D	D
19	C	C	D
20	A	C	A
21	B	A	B
22*	D	D	E
23*	B	B	A
24*	D	D	C
25	A	A	D
26*	C	C	D
27	D	C	C
28	D	C	B
29*	B	B	E
30*	E	E	A
31*	A	A	B
32*	B	B	A
33*	A	A	C
34*	C	C	A
35	A	A	E
36*	B	B	B
37*	C	C	C
38*	A	A	B

* Questions common to topics A and B

Part 2: Problem – Topic A

Journal entries for the month of September (1 mark for each journal entry: correct Dr Cr, account names & amount, no partial marks – 7 marks)

#1	Dr. Supplies	500	
	Cr Supplies Payable		500
#2	Dr. AR	800	
	Cr Revenue		800
#3	Dr Cash	300	
	Cr AR		300
#4	Dr Supplies Payable	200	
	Cr Cash		200
#5 AJE	Dr Supplies Expense	300	
	Cr Supplies		300
#6 AJE	Dr Rent Expense	300	
	Cr Prepaid Rent		300
#7 AJE	Dr. Depreciation Expense	100	
	Cr Accumulated Deprec.		100

Note to marker: full marks can be granted only if adjusting journal entries are journalized after the journal entries of the period. If all journal entries are OK but with a mixed up order -1 applies.

Posting transactions (1 mark for each listed below, no marks for any other, no partial marks – Total 7 marks)

Cash: Opening balance \$50 + #3 300 - #4 200 = Ending balance \$150

AR: Opening balance \$500 + #2 800 - #3 300 = Ending balance \$1,000

Prepaid rent: Opening balance \$900 - #6 300 = Ending balance \$600

Supplies: Opening balance \$0 + #1 500 - #5 300 = Ending balance \$200

Accumulated Depreciation: Opening balance \$100 + #7 100 = Ending balance \$200

Supplies Payable: Opening balance \$200 + #1 500 - #4 200 = Ending balance \$500

Retained Earnings: Opening balance \$400 + net income of period \$100 = Ending balance \$500

No changes in balances: Equipment and Contributed Capital (Owners equity)

Income statement for the period ended September 30th 2017 (1 marks for net income)

Revenue	\$800
Rent Expense	(\$300)
Supplies Expense	(\$300)
Depreciation	<u>(\$100)</u>
Net income for the period	\$100

Note to marker: 1 mark can be granted if format and structure is OK but Net income amount is wrong.

Balance Sheet as of September 30th 2017 (1 marks for total assets equal to total liabilities)

Cash	\$150	Supplies Payable	\$500
Accounts Receivables	\$1,000	Equipment Payable	\$500
Prepaid Rent*	\$600		
Supplies	\$200		
Equipment**	\$550	Contributed Capital	\$800 (Owners' Equity)
Accumulated Depreciation	<u>(\$200)</u>	Retained Earnings	<u>\$500</u>
Total assets	\$2,300	Total Liabilities and OE	\$2,300

Note to marker: 1 mark can be granted if format and structure is OK but sums do not balance.

Part 2: Problem – Topic B and C

Journal entries for the month of September (1 mark for each journal entry: correct Dr Cr, account names & amount, no partial marks – 7 marks)

#1	Dr. Supplies	500	
	Cr Supplies Payable		500
#2	Dr. AR	400	
	Cr Revenue		400
#3	Dr Cash	100	
	Cr Advances from cust		100
#4	Dr Equipment Payable	150	
	Cr Cash		150
#5 AJE	Dr Supplies Expense	200	
	Cr Supplies		200
#6 AJE	Dr Rent Expense	100	
	Cr Prepaid Rent		100
#7 AJE	Dr. Depreciation Expense	50	
	Cr Accumulated Deprec.		50

Note to marker: full marks can be granted only if adjusting journal entries are journalized after the journal entries of the period. If all journal entries are OK but with a mixed up order -1 applies.

Posting transactions (1 mark for each listed below, no marks for any other, no partial marks – Total 7 marks)

Cash: Opening balance \$50 + #3 100 - #4 150 = Ending balance \$0

AR: Opening balance \$500 + #2 400 = Ending balance \$900

Prepaid rent: Opening balance \$1,100 - #6 100 = Ending balance \$1,000

Supplies: Opening balance \$100 + #1 500 - #5 200 = Ending balance \$400

Accumulated Depreciation: Opening balance \$50 + #7 50 = Ending balance \$100

Supplies Payable: Opening balance \$200 + #1 500 = Ending balance \$700

Equipment Payable: Opening balance \$500 - #4 150 = Ending balance \$350

Advances from customers: Opening balance \$0 + #3 100 = Ending balance \$100

Retained Earnings: Opening balance \$150 + net income of period \$50 = Ending balance \$200

No changes in balances: Equipment and Contributed Capital (Owners equity)

Income statement for the period ended September 30th 2017 (1 marks for net income)

Revenue	\$400
Rent Expense	(\$100)
Supplies Expense	(\$200)
Depreciation	<u>(\$50)</u>
Net income for the period	\$50

Note to marker: 1 mark can be granted if format and structure is OK but Net income amount is wrong.

Balance Sheet as of September 30th 2017 (1 marks for total assets equal to total liabilities)

Cash	\$ 0	Supplies Payable	\$700
Accounts Receivables	\$900	Equipment Payable	\$350
Prepaid Rent*	\$1,000	Advances from Cust.	\$100
Supplies	\$400		
Equipment**	\$650	Contributed Capital	\$1,500 (Owners' Equity)
Accumulated Depreciation	<u>(\$100)</u>	Retained Earnings	<u>\$200</u>
Total assets	\$2,850	Total Liabilities and OE	\$2,850

Note to marker: 1 mark can be granted if format and structure is OK but sums do not balance.

Answer the following 4 questions in the space provided (2 marks each – 8 total marks):

a) If a customer cannot pay his bill, what journal entry is needed?

Accounts Receivables is credited for the amount and a loss or a bad debt expense is recognized in the income statement.

Note to the marker: zero mark if there is not mention to the loss of bad debt expense.

b) Explain how Sept 10th transaction would be recorded using the 'backwards system' and whether this is acceptable or not

The journal entry would debit supplies expense instead of prepaid supplies for the whole amount as follows:

#1	Dr. Supplies Expense	500	
	Cr Supplies Payable		500

The backwards system is not recommended to be use but it is acceptable to be used. After doing the appropriate AJE at the end of the current period, the end result is the same, but more complicated.

The correct AJE are as follows:

Topic A:	#5 AJE	Dr Supplies	200	
		Cr Supplies Expense		200
Topics B&C:	#5 AJE	Dr Supplies	300	
		Cr Supplies Expense		300

Note to marker: There are no marks for this question but if done by the student, please provide feedback.

c) As a potential lender, would you consider giving this company a loan of \$1,000. Explain why or why not?

Topic A: In the first 2 months of operations the company showed positive results \$400 in August and \$100 in September, however, the net income declined.

The question to ask is why is needed the loan. If the company is running out of cash but not building nothing new (capital or non current asset), then it is not a good idea to provide the loan. The company can get some cash by collecting some of the AR.

Topics B&C: In the first 2 months of operations the company showed positive results \$150 in August and \$50 in September, however, the net income declined.

The question to ask is why is needed the loan. Clearly the company has run out of cash, then it is not a good idea to provide the loan. The company can get some cash by collecting some of the AR.

All topics: There is little history to the business so little assurance of repayment.

Note to marker: failure to provide a clear explanation results in a zero. Students need to elaborate on the reason(s).

d) Suggest two items that need to be better managed in the future.

Revenue is key, seeing a drop in revenue in the second month of operations is of concern.

AR is the second best choice because it has duplicated in September and now is the largest asset account, even larger than equipment.

Note to marker: any answer that indicates increasing expenses or mentions to provide more details or suggest having a better accounting system gets zero.