

York University AP/ADMS 2500.03

Introduction to Financial Accounting

Midterm Examination #1 – Database

Time: 3 hours

Fall 2014

Questions: 67

PART 1: Lucy Jones' Convenience Store
Questions 1 to 25 are based on this case)

Your former grade 2 teacher, Lucy Jones, has opened Lucy Jones' Convenience Store Ltd. in a nearby strip mall. She began her business on October 1st, 2013. She invested on that day \$30,000 in share capital and her sister, Mary, contributed \$10,000 as a loan to the firm. The loan bears an annual interest of 10% and none has been paid to date.

Lucy found the business exciting and she seems to have been successful as a business person—but the question is how successful? The bank balance at September 30th 2014 shows \$38,900 in Lucy's chequing account. Lucy thinks that the bank balance shows that her first year of operations was a real success and that if she wanted she can take money from the company to pay her dividends.

She has no formal training as an accountant but does keep a summary of selected transactions for the fiscal year ended September 30th, 2014:

Cost of merchandise purchases on account.....	\$70,000
Wages paid to clerks (in cash).....	\$12,000
Rent paid for the first 14 months (in cash)	\$7,000
Business taxes & licenses for the first 5 years of operation (in cash)	\$5,000
Office Supplies purchased (cash 80%, the rest on account).....	\$10,000
Miscellaneous expenses paid (in cash)	\$10,000

When the business was formed, a friendly insurance agent sold her a two year business insurance policy with a premium of \$6,600 for the two years. She paid cash for the policy and included the bill in her miscellaneous expenses.

When she moved into the store she paid the previous occupant \$15,000 for the existing furniture and fixtures which she estimated would last her easily another five years.

During the year the convenience store sold merchandise for \$93,000 of which \$90,000 was for cash and she collected all credit sales made except for \$1,500. However, Mary expected to eventually only collect \$400 from these outstanding receivables.

Mary had recorded the cost of each item sold during the year and this totaled \$65,000. At September 30th 2014 she estimated office supplies on hand had a cost of \$8,000 and the cost of the merchandise still on hand was \$3,000.

The bank had deducted interest and bank charges totaling \$1,000 from the convenience store bank account. The major portion of this was for interest on the demand loan from the bank which has a principal amount of \$15,000. This loan is fully secured by a government savings bond that Lucy purchased for \$15,000 for the firm when she first opened for business. The current market value of this investment is \$15,000. The boutique had received \$400 interest on this investment and another \$100 had been earned but not accrued at year end.

Lucy maintains excellent relations with her suppliers and has never had a dispute of any kind. She currently owes them \$20,000. This balance includes the last cheques he wrote on September 30th for \$15,000. Office supplies are still owed, the owner of the shop is an old family friend who told Lucy to pay him whenever she is sure that she is making money. Lucy is not sure yet, therefore she still owes him the balance on account.

The clerks are paid \$10 per hour and during the first 12 months of operations ended on September 30th, 2014 they have worked a total of 1,500 hours.

Since the business is incorporated it has to pay income taxes to Revenue Canada. She qualifies for the small business tax rate of 15%

Prepare "T" Accounts in Accrual Basis for "Lucy Jones Convenience Store" 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).

*This space is blank and can be used for your calculations
It is estimated that you will need 1 hour to prepare the T
accounts, Income statement and Balance Sheet*

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Questions on LUCY JONES' CONVENIENCE STORE Case

This Section Questions 1-20 ONLY APPLIES TO ACCURAL ACCOUNTING for
"Lucy Jones' Convenience Store" for the date ending September 30th:

- 1) What was the Cash balance (T account after AJE) at the end of the September 30?
- A). less than \$20,000
 - B). between \$20,001 and \$30,000
 - C). between \$30,001 and \$37,000
 - D). between \$37,001 and \$39,000
 - E). None of the above is correct
- 2AC). What is the balance of Prepaid Office Supplies as of September 30th (after AJE)?
- A). \$0
 - B). \$2,000
 - C). \$8,000
 - D). \$10,000
 - E). None of the above is correct
- 2BC). What is the balance of Inventory to be reported in the Balance Sheet?
- A). \$0
 - B). \$3,000
 - C). \$5,000
 - D). \$70,000
 - E). None of the above is correct
- 3). What is the amount of Prepaid Insurance by September 30 (after AJE)?
- A). \$0
 - B). \$3,000
 - C). \$3,300
 - D). \$6,600
 - E). None of the above is correct
- 4). What is the total amount of Accounts Payable that Lucy Jones' Convenience Store owes as of September 30 (after AJE)?
- A). \$70,000
 - B). \$50,000
 - C). \$22,000
 - D). \$0
 - E). None of the above is correct

- 5). What is the balance of Prepaid Rent (before AJE)?
- A). \$7,000
 - B). \$6,000
 - C). \$3,000
 - D). \$1,000
 - E). None of the above is correct
- 6). What was the salary and wages expense for the first year of operations (after AJE)?
- A). \$0
 - B). \$10
 - C). \$1,500
 - D). \$12,000
 - E). None of the above is correct
- 7). What was the total expenses for the first year of operations (after AJE)?
- A). more than \$90,001
 - B). between \$90,000 and \$40,001
 - C). between \$40,000 and \$30,001
 - D). between \$30,000 and \$20,000
 - E). None of the above is correct
- 8). What was the Net Income for the first year of operations?
- A). negative (net loss)
 - B). between \$195 and \$1,200
 - C). between \$1,201 and \$5,000
 - D). between \$5,001 and \$6,100
 - E). None of the above is correct
- 9AC). The total for cost of goods sold for first year of operations is: A).
- \$0
 - B). \$65,000
 - C). \$67,000
 - D). \$70,000
 - E). None of the above is correct
- 9BC). The total for miscellaneous expense for first year of operations is: A).
- \$0
 - B). \$3,400
 - C). \$6,700
 - D). \$10,000
 - E). None of the above is correct

- 10). What is the total amount of Accounts Receivable to be reported in the balance sheet of September 30?
- A). \$0
 - B). \$1,100
 - C). \$1,500
 - D). \$3,000
 - E). None of the above is correct
- 11AC) What is the net value of Furniture/Equipment after AJE?
- A). \$0
 - B). \$10,000
 - C). \$12,000
 - D). \$15,000
 - E). None of the above is correct
- 11BC) What is the balance of Furniture/Equipment shown in the Balance Sheet as of September 30?
- A). \$0
 - B). \$10,000
 - C). \$12,000
 - D). \$15,000
 - E). None of the above is correct
- 12AC). What was the total adjusted interest income earned to be reported in the Income Statement?
- A). \$100
 - B). \$400
 - C). \$500
 - D). Not enough information given for this answer
 - E). None of the above is correct
- 12BC). What was the total adjusted rent expense to be reported in the Income Statement?
- A). \$7,000
 - B). \$6,000
 - C). \$1,000
 - D). Not enough information given for this answer
 - E). None of the above is correct
- 13). The total revenues to be reported in the Income Statement are:
- A). \$65,000
 - B). \$67,000
 - C). \$90,000
 - D). \$91,500
 - E). None of the above is correct

14). What is the total Office Supplies Expense to be reported in the Income Statement?

- A). \$0
- B). \$2,000
- C). \$8,000
- D). \$10,000
- E). None of the above is correct

15). What is the total business tax and licenses expense to be reported in the income statement?

- A). \$5,000
- B). \$4,000
- C). \$2,500
- D). \$1,000
- E). None of the above is correct

16AC). What is the amount of total current assets to be reported in the Balance Sheet?

- A). between \$35,001 and \$41,000
- B). between \$41,001 and \$44,000
- C). between \$44,001 and \$46,000
- D). between \$46,001 and \$52,000
- E). None of the above is correct

16 BC). What is the amount of total non current assets to be reported in the Balance Sheet?

- A). between \$30,000 and \$31,000
- B). between \$31,001 and \$34,000
- C). between \$34,001 and \$36,000
- D). between \$36,001 and \$42,000
- E). None of the above is correct

17AC). What are the Total of all Liabilities to be reported in the Balance Sheet?

- A). between \$35,001 and \$41,000
- B). between \$41,001 and \$44,000
- C). between \$44,001 and \$46,000
- D). between \$46,001 and \$52,000
- E). None of the above is correct

17BC). What are the Total of Current Liabilities to be reported in the Balance Sheet?

- A). between \$35,001 and \$41,000
- B). between \$41,001 and \$44,000
- C). between \$44,001 and \$46,000
- D). between \$46,001 and \$52,000
- E). None of the above is correct

- 18). In the Statement of Retained Earnings to be prepared for Lucy Jones' Convenience Store:
- A). the closing balance is larger than the opening balance
 - B). the opening balance includes contributed capital (common shares) C). the opening balance is zero
 - D). the closing balance is zero
 - E). None of the above is correct
- 19). What is the total of Shareholders' Equity reported in the balance sheet?
- A). Negative amount
 - B). less than \$30,000
 - C). exactly \$30,000
 - D). more than \$30,000
 - E). None of the above is correct
- 20AB). What is the maximum amount of dividends that can be paid based on the financial statements you have just prepared?
- A). \$0
 - B). between \$100 and \$10,000
 - C). between \$10,001 and \$20,000
 - D). more than \$20,001
 - E). None of the above is correct

This Section Question 21-25 ONLY APPLIES TO CASH BASIS ACCOUNTING for "Lucy Jones' Convenience Store" for the date ending September 30:

21AB). What was the Cash balance at the end of the September 30?

- A). less than \$20,000
- B). between \$20,001 and \$30,000
- C). between \$30,001 and \$37,000
- D). between \$37,001 and \$39,000
- E). None of the above is correct

22A). What is the amount of Business Tax and Licenses paid for the first year of operations?

- A). \$5,000
- B). \$4,000
- C). \$1,000
- D). \$0
- E). None of the above is correct

22B). What is the amount of Rent paid for the first year of operations?

- A). \$7,000
- B). \$6,000
- C). \$1,000
- D). \$0
- E). None of the above is correct

23AB). What is the total value of depreciation for the year ended on September 30th?

- A). \$850
- B). \$750
- C). \$100
- D). \$0
- E). None of the above is correct

24A). What is the interest expense for the sister's loan for the year ended on September 30th?

- A). \$0
- B). \$500
- C). \$1,000
- D). \$2,000
- E). None of the above is correct

24B). What is the office supplies expense for the year ended on September 30th?

- A). \$0
- B). \$2,000
- C). \$8,000
- D). \$10,000
- E). None of the above is correct

25AB). What is the total expenses for Salaries and Wages for the year ended on September 30th?

- A). \$0
- B). \$1,500
- C). \$12,000
- D). \$15,000
- E). None of the above is correct

PART 2: INDEPENDENT QUESTIONS

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

This Section Question 26-40 ONLY APPLIES TO the information provided in each question. They are not related to the "Lucy Jones' Convenience Store" case.

26AB) On March 10, Frazier Company received merchandise for resale from its normal supplier. The invoice price was \$3,600 with terms of 2/10, n/30 for 100 units of Part #345. The invoice was paid on March 17. 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) \$36.48
- C) \$37.20
- D) \$37.56
- E) None of the above is correct

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

A) An overstatement of assets, net income, and shareholders' equity.
B) An overstatement of assets and shareholders' equity and an understatement of net income.
C) No effect on assets, liabilities, net income, nor shareholders' equity D)
An understatement of assets, net income, and shareholders' equity E)
None of the above is correct

- A) An understatement of expenses and liabilities and an overstatement of shareholders' equity
- B) An overstatement of expenses and liabilities
- C) An understatement of expenses, liabilities and shareholders' equity
- D) An understatement of assets and shareholders' equity
- E) None of the above is correct

29AB) Central Company sold goods for \$5,000 to Western Company on March 12 on credit. Terms of the sale were 2/10, n/30. At the time of the sale, Central recorded the transaction by debiting accounts receivable for \$5,000 and crediting sales revenue for \$5,000. Western paid the balance due, less the discount, on March 21. To record the March 21 transaction, Central would debit which of the following?

- A) Cash for \$4,900.
- B) Accounts receivable for \$4,900
- C) Cash for \$5,000
- D) Accounts receivable for \$5,000.
- E) None of the above is correct

30AB) The 2013 records of Crawford Company showed beginning inventory, \$90,000; cost of goods sold, \$460,000; and ending inventory, \$80,000. The purchases for 2013 equal

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

31AB) On January 1, 2013, Houston Company purchased a delivery truck that cost \$56,000. Cash of \$26,000 was paid, and the balance of \$30,000 was payable on January 31, 2014. The truck has an estimated useful life of four years and no residual value. Considering only these facts, depreciation expense (on the truck) for 2013, would be

- A) \$14,000
- B) \$7,500.
- C) \$6,500
- D) \$56,000
- E) None of the above is correct

32AB) 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

33AB) Accrued expenses which must be recorded in adjusting entries represent which of the following?

- A) Expenses incurred but not yet paid
- B) Expenses incurred but not recorded or paid
- C) Expenses paid in advance.
- D) Expenses paid in advance and not recorded. E)
- None of the above is correct

34AB) Which of the following would be an example of an investing activity in the cash flow statement?

- A) Purchasing equipment for cash
- B) Buying inventory from a supplier on credit
- C) Selling shares to investors for cash
- D) Repaying the principal on a bank loan
- E) None of the above is correct

35A) In what order are assets are 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

35B) The periodicity assumption is the basis for which of the following?

- A) Dividing the activities of a business into a series of time periods for accounting and reporting purposes.
- B) The cutoff of revenue recognition only
- C) Keeping the company's transactions separate from the owners' transactions. D)
- The cutoff of expense recognition only.
- E) None of the above is correct

36AB) Which of the following phases of the accounting information processing cycle is performed at the end of the accounting period?

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

37AB) During 2013, its second year in operation, Banner Company delivered goods to customers for which customers paid or promised to pay \$5,800,000. The amount of cash collected from customers was \$5,960,000. The amount of accounts receivable at the beginning of 2013 was \$1,200,000. What is the amount of sales revenue that Banner should report on its income statement for 2013?

- A) \$4,650,000.
- B) \$4,760,000
- C) \$5,850,000.
- D) \$5,960,000.
- E) None of the above is correct

38AB) What is the income statement equation?

- A) Assets - Liabilities = Shareholders' Equity.
- B) Assets + Shareholders' equity = Liabilities.
- C) Net income = Revenues - Expenses
- D) Expenses - Net income = Revenues
- E) None of the above is correct

39AB) Borrowing \$100,000 of cash from First National Bank would do which of the following?

- A) Increase cash by a credit
- B) Increase notes payable by a debit C)
- Increase notes payable by a credit D)
- Decrease cash by a debit
- E) None of the above is correct

40AB) A company purchases \$25,000 of inventory in March 2014 and will pay for it in April 2014, which of the following statements is false?

- A) The company will report accounts payable of \$25,000 in March 2014.
- B) The statement of cash flows will report an operating cash outflow of \$25,000 in April 2014.
- C) The income statement will report the \$25,000 as cost of goods sold in March 2014 when they are purchased.
- D) None of the above is false
- E) All of the above are false

Use the following set up to answer questions 26 to 28

PROBLEM 04 – BALANCE SHEET EQUATION

On June 30, 2014, the balance sheet of Zorab & Co. showed total assets of \$400,000, total liabilities of \$300,000, and owner's equity of \$100,000. The following transactions occurred in July of 2004:

1. The owner invested an additional \$70,000 cash in the business.
2. The business purchased equipment for \$150,000, paying \$60,000 cash and issuing a note payable for \$90,000.
3. The business paid off \$40,000 of its accounts payable.

26C) As of July 31, 2014 the amount reported in total assets was: A)
400,000
B) 550,000
C) 450,000
D) 460,000
E) None of the above is correct

27C) As of July 31, 2014 the amount reported in total liabilities was: A)
300,000
B) 350,000
C) 390,000
D) 430,000
E) None of the above is correct

28C) As of July 31, 2014 the amount reported in total owner's equity was: A)
100,000
B) 150,000
C) 170,000
D) 250,000
E) None of the above is correct

29C) Evans Corporation's retained earnings increased by \$300,000 during the year. Also during the year, dividends totaling \$75,000 were declared and paid to shareholders. Evans Corporation's net income for the year was.
A) \$75,000
B) \$225,000
C) \$300,000
D) \$375,000
E) None of the above is correct

30C) Coleman Inc. reports total assets and total liabilities of \$225,000 and \$100,000, respectively, at the conclusion of its first year of business. The company earned \$75,000 during the first year and distributed \$30,000 in dividends. What was the firm's contributed capital?

- A) \$125,000
- B) \$95,000
- C) \$80,000
- D. \$50,000
- E) None of the above is correct

ANS C

31C) A firm's gross profit on net sales is 35%. The firm had net sales of \$400,000 and net cost of purchases of \$280,000. If the beginning inventory was \$40,000, how much was the ending inventory?

- A) \$180,000
- B) \$60,000
- C) \$20,000
- D) \$40,000
- E) None of the above is correct

Use the following set up to answer questions 32 to 35

Every summer the Kramer Music Society sponsors a series of six classical music concerts. For 2014, two concerts monthly are scheduled for June, July, and August. Season tickets are on sale June 1-16, 2014 (the first concert is June 16), and cost \$48 for the six concerts. Tickets for individual concerts cost \$10 each and go on sale June 15, 2014. The Society sold 600 season tickets during June 1-16 and credited the \$28,800 proceeds to the Unearned Ticket Revenue account. The concerts are given in a pavilion located in a city park. The Society rents the facility from the city for \$500 per concert. The city requires advance payment for all concerts by June 5. On June 3, 2014, the Society mailed a \$3,000 cheque to the city and debited the amount to the Prepaid Rent account. The Society incurs no other rent costs. The two concerts for June were presented as scheduled. Individual tickets sold for the June concerts totaled \$6,000 and were credited to the Ticket Revenue account. Other than the season tickets sold during June 1-16, no advance tickets have been sold by June 30 for the July and August concerts.

32C) After preparing the necessary adjusting entries and posting them, what is the June 30, 2014, balance of Prepaid Rent?

- A) 3,000
- B) 2,000
- C) 1,000
- D) 0
- E) None of the above is correct

33C) After preparing the necessary adjusting entries and posting them, what is the June 30, 2014, balance of Unearned Ticket Revenue? A)

34,800

B) 28,800

C) 22,800

D) 12,200

E) None of the above is correct

34C) After preparing the necessary adjusting entries and posting them, what is the June 30, 2014, balance of Ticket Revenue?

A) 0

B) 6,000

C) 9,600

D) 15,600

E) None of the above is correct

35C) After preparing the necessary adjusting entries and posting them, what is the June 30, 2014, balance of Rent Expense?

A) 3,000

B) 2,000

C) 1,000

D) 0

E) None of the above is correct

36 not to be used?) Which of the following combinations of trial balance totals does not indicate a trans position error?

A) \$65,470 debit and \$64,570 credit

B) \$32,540 debit and \$35,420 credit

C) \$25,670 debit and \$26,670 credit

D) \$14,517 debit and \$15,471 credit

E) None of the above is correct

37 not to be used?) Apartments-for-Rent Corporation received cash of \$7,200 on August 1, 2014 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2014 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

Use the following set up to answer questions 38 to 42

The following account balances, in alphabetical order, are from the general ledger of Anil's Hacking Service at January 31, 2014. The firm's accounting year began on January 1. All accounts had normal balances.

Accounts Payable \$ 1,100	Anil. Drawing \$2,750	Accounts Receivable \$10,400
Prepaid Insurance \$880	Advertising Expense \$150	Rent Expense \$640
Cash \$6,800	Salaries Expense \$3,200	Service Fees \$16,200
Supplies Expense \$2,250	Insurance Expense \$80	Supplies on Hand \$8,420
Anil, Capital, January 1 \$18,500		Utilities Expense \$230

38C) The net income reported for January 2014 is: A)

- \$26,500
- B) \$25,400
- C) \$9,650
- D) \$1,100
- E) None of the above is correct

39C) The total of current assets in the balance sheet as of January 31, 2014 is: A)

- \$26,500
- B) \$25,400
- C) \$9,650
- D) \$1,100
- E) None of the above is correct

40C) The total of non current assets in the balance sheet as of January 31, 2014 is: A)

- \$26,500
- B) \$25,400
- C) \$9,650
- D) \$1,100
- E) None of the above is correct

41C) The total of owners equity in the balance sheet as of January 31, 2014 is: A)

- \$26,500
- B) \$25,400
- C) \$9,650
- D) \$1,100
- E) None of the above is correct

42C) The total of retained earnings in the balance sheet as of January 31, 2014 is: A)

- \$30,900
- B) \$25,400
- C) \$18,500
- D) \$15,750
- E) None of the above is correct

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