

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

Time: 3 hours

Winter 2014

Questions: 40

Instructions:

1. **Submit:** Only the pink mark sense sheet will be collected: you may keep this midterm examination paper. Mark your answers on it for later reference.

2. **Mark Sense Sheet:**

- Record your name and student number and answer all questions on the computer mark sense sheet provided with an HB (soft lead) pencil. Bring several pencils in case one breaks. The computer will not recognize ink or hard lead pencils
- Test Form is 'A' and Code is your Section (in the left column)
- Fill in the bubbles for your name and student number in pencil (your phone number is not required). Leave the last column of the student number BLANK
- If you change an answer, use a high quality eraser to completely remove the previous mark. If the computer senses two answers to a question, only the first scanned will be recognized.

3. **Exam Aids:**

- Only calculators without alphanumeric programmable memories are allowed. It is strongly suggested you bring a couple of cheap 4 function computers to the exam in case one fails. Be prepared to be challenged by invigilators if you bring a “fancy” calculator.
- Compact foreign language/English dictionaries may be used. However, these will be examined by invigilators. If there are any loose pages or handwriting in the dictionary, it will be seized and you will be charged with academic dishonesty.
- 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 question contains an error and do not receive a response, make a detailed note at the back of your answer (pink) sheet.

4. **Exam Strategy**

- Careful budgeting of time on an accounting exam is essential. Bring a watch and check your progress regularly. Poor time management is the most common reason for poor exam performance in accounting.
- It is always a good idea to attempt the questions you deem easiest first. In an interrupted exam that is not restarted, your exam will be scored based on questions attempted.
- It is essential to transfer your answers to the grading sheet after each question in case the exam is interrupted by fire alarm.

- The last ten minutes of an exam should be devoted to double checking your transfers. What you submit is what is graded. If you have not transferred your answers to the mark sense sheet at the end of the exam, the invigilator will not wait. Your answer sheet will be seized and it will be graded based on whatever questions have choices filled in.
- Remember there is no penalty for guessing on a multiple choice computer graded exam. Submit a choice for every question. Also note that in 2500, the choice of “None of the above” does indeed represent a frequent correct choice to questions.

5. Exam room regulations:

- All personal belongings either on the floor or at the front of the exam room. All items on your desk will be examined by invigilators
- Bring your York Card, Ontario Driver’s Licence or passport as identification and place it on the desk in front of you. You will be required to sign in and show appropriate documentation. Students without ID will be allowed to write the exam, but will be photographed and asked to submit registration and photo ID to the School of Administrative Studies the next day.
- No student may leave the exam in the first hour. No student may start the exam after an hour. Students requiring restroom visits must be accompanied by an invigilator.
- The proctors will announce when there are 15 minutes remaining and any answers not transferred should be recorded at this time. No one is to leave their seat in the last 15 minutes.
- When time is called, the proctors will go down the rows collecting your answer sheets and this exam paper. They will not wait and they will not accept your sheet once they have passed. Any violation of this protocol will result in a grade of zero recorded for the exam.

6. Fire Alarms

- A frequent occurrence in York exams. In the event of a fire alarm, you are to leave your exam and answer sheet face down on your desk and immediately proceed outside with coats and all personal belongings. Print your surname on the back of the exam so you know which seat to return to. An invigilator will lead the group outside to a place of safety. There is to be no talking during the evacuation or outside. Most rooms are cleared 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.

7. Academic Dishonesty

- You are reminded that cheating is a serious offense which can result in expulsion from university
- Exams at York are held in regular classrooms, which may involve tiered seating. Consequently, neck exercises are not allowed during exams. First instance of wandering eyes has the student relocated to the front of the room. Second instance results in seizure of paper.

8. Special Instructions

- This exam is composed of two parts: Part 1- Cases and Part 2: Independent Questions. 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 are questions based on different and independent scenarios unrelated to the case of Part 1.

Part 1: Cases

Questions 1-5 are based on the following information regarding Elite Property Management.

Elite Property Management adjusts its books each month but closes its books at the end of the year. The trial balance at January 31 before adjustments is as follows:

	Debit	Credit
Cash	8,310	
Accounts Receivable	6,000	
Supplies	750	
Prepaid Advertising	1,800	
Equipment	14,400	
Accumulated Depreciation: Equipment		5,000
Unearned Management Fees		3,900
Capital Stock		5,000
Retained Earnings		7,400
Management Fees Earned		17,500
Salaries Expense	6,400	
Utilities Expense	240	
Rent Expense	900	
	<u>38,800</u>	<u>38,800</u>

1. According to property management contracts, \$2,400 of the Unearned Management Fees has been earned in January. The amount of Management Fees Earned (revenue) to be reported in the January income statement is:
 - A) \$2,400
 - B) \$15,100
 - C) \$19,900
 - D) \$19,000
 - E) None of the above

2. On December 1 of last year, Elite paid in advance for six months' advertising in the local newspaper. The necessary adjusting entry on January 31 includes which of the following?
 - A) A credit to Prepaid Advertising for \$360.
 - B) A credit to Prepaid Advertising for \$1,500.
 - C) A debit to Advertising Expense for \$300.
 - D) A debit to Prepaid Advertising for \$1,440.
 - E) None of the above

3. At January 31, the amount of supplies on hand is \$410. What amount is reported in the January income statement for supplies expense?
- A) \$410.
 - B) \$1,160.
 - C) \$750.
 - D) \$340.
 - E) None of the above
4. The equipment had an estimated useful life of six years and no residual value when purchased. Compute the net book value of the equipment at January 31, after the proper January adjustment is recorded.
- A) \$9,200.
 - B) \$14,400.
 - C) \$14,200.
 - D) \$7,000
 - E) None of the above
5. Employees are owed \$350 for services since the last payday in January, to be paid the first week in February. The amount to be reported in the January income statement for salaries expense is:
- A) \$350.
 - B) \$6,750.
 - C) \$6,050.
 - D) \$6,400.
 - E) None of the above

(End of Elite Property Management)

Questions 6-19 are based on the following information regarding Wind Jammer Inc.

Wind Jammer Inc. (WJI) was incorporated in 2013 by its sole shareholder, James Bond. WJI operates a yacht that provides tours of Toronto Harbour. The yacht can also be rented by private groups on a per hour basis. During September 2013, its first month of operation, the following transactions and events occurred.

- September 1st: WJI was incorporated and James Bond contributed \$275,000 cash in exchange for 100 common shares of the company.
- September 2nd: Purchased a yacht, the Wind Jammer XL, for \$300,000, paying \$200,000 in cash and the remainder as a loan payable to the seller of the boat. Interest on the loan is 12%, due monthly starting September 30th, 2013. The loan must be repaid in full on August 31st, 2016.

- September 2nd: The seller has agreed to rent a docking space to WJI for \$300 per month. WJI paid \$1,500 for docking rights up to the end of January 2014.
- September 3rd: Insurance is arranged. The monthly premium of \$370 is payable on the 15th of each month, and the first payment is made on September 15th, 2013, covering the whole month of September.
- September 4th: WJI paid \$4,500 for lumber and supplies to construct a booth for selling tickets at the dock. Leftover lumber worth about \$2,000 was taken to James Bond's home in Oakville to be used to build a deck.
- September 4th: WJI purchased \$1,650 worth of fuel, and life jackets and other safety supplies worth \$1,900, all on credit.
- September 15th: WJI received a deposit of \$3,000 from a customer, who wants to rent the boat for a company party on October 2, 2013. The full price of the rental will be \$6,000.
- September 15th: paid \$370 insurance
- September 1st-30th: Sales for the month were:
 - a) Rentals paid in cash: \$5,600
 - b) Rentals on credit (still outstanding at September 30th): \$970
 - c) Tour tickets paid for in cash: \$8,800. \$550 worth of the tour tickets was unused as of the end of September.

Additional information:

- About half the fuel is remaining at the end of September
- A lawyer's bill for \$1,100 for incorporating the company is received on October 2nd, 2013. (**Hint:** to be expensed)
- the company sets up fuel and supplies as a prepaid expense
- Assume that WJI is exempted from taxes.

What are the balances of the following accounts *before any month-end adjustments* (Questions 6-13)?

6. Cash
- A) \$78,600
 - B) \$86,030
 - C) \$87,030
 - D) \$77,230
 - E) None of the above

7. Owner's Capital
- A) \$0
 - B) \$100
 - C) \$274,900
 - D) \$275,000
 - E) None of the above

8. Accounts Receivable

- A) \$0
- B) \$970
- C) \$3,550
- D) \$100,000
- E) None of the above

9. Lumber and supplies

- A) \$2,500
- B) \$4,500
- C) \$2,000
- D) \$0
- E) None of the above

10. Total Revenues

- A) \$5,600
- B) \$8,250
- C) \$14,820
- D) \$15,370
- E) None of the above

11. Unearned Revenues

- A) \$0
- B) \$550
- C) \$3,000
- D) \$3,550
- E) None of the above

What are the balances of the following accounts after all month-end adjustments(Questions 14-17)?

12. Fuel

- A) \$1,650
- B) \$825
- C) \$412.5
- D) \$0
- E) None of the above

13. Prepaid Rent

- A) \$0
- B) \$300
- C) \$1,200
- D) \$1,500
- E) None of the above

14. Total Expenses (excluding the information given in Q17)

- A) \$185
- B) \$2,100
- C) \$2,495
- D) \$3,595
- E) None of the above

15. All payable accounts

- A) \$104,650
- B) \$103,550
- C) \$104,520
- D) \$100,000
- E) None of the above

16. Assuming that the yacht purchased on September 2nd has a useful life of ten years and no residual value. Which of the following adjustment is required to adjust the carrying value of the yacht at the end of the month?

- A) Credit yacht
- B) Debit yacht depreciation expense
- C) Debit accumulated depreciation
- D) Credit bad debt expense
- E) None of the above

17. What effect would there be if fuel is not adjusted at the end of September?

- A) Assets would be overstated and Owner's Equity would be overstated
- B) Assets would be overstated and Expense would be overstated
- C) Liabilities would be overstated and Expense would be understated
- D) Liabilities would be understated and Expense would be overstated
- E) None of the above

(End of Wind Jammer Inc.)

Questions 20-28 are based on the following information regarding Phillips Retailers Inc. for the month of January 2014:

- Jan. 1st The owner, Tom Phillips invested \$20,000 to open the business.
- Jan. 1st Purchased insurance for the next 6 months at \$250 per month.
- Jan. 1st Received a bank loan of \$20,000 with interest at 6%, and interest is paid semi-annually.
- Jan. 2nd Purchased merchandise inventory worth \$50,000, half for cash and the rest to be paid in 18 days.
- Jan. 8th Sold merchandise inventory for \$12,000 in cash, cost was \$6,000.
- Jan. 9th Purchased Store Supplies worth \$1,500 on account. To be paid in 30 days.
- Jan. 12th Sold merchandise inventory for \$15,000, to be paid in 15 days. Cost was \$6,800.
- Jan. 15th Purchase merchandise inventory for \$25,000, on account to be paid in 30 days.
- Jan. 20th Paid remainder owed for January 2nd merchandise inventory purchase.
- Jan. 27th Received amount owed for January 12th purchase.
- Jan. 31th Received and paid the equal-payment January electricity bill, \$2,000.
- Jan. 31st Made all month-end adjustments, \$500 worth of store supplies used up.

Regarding Phillips Retailers for the month of January 2014:

18. Merchandise Inventory Purchased on accrual basis

- A) \$25,000
- B) \$50,000
- C) \$75,000
- D) \$76,500
- E) None of the above is correct

19. Merchandise Inventory Purchased on cash basis

- A) \$0
- B) \$25,000
- C) \$50,000
- D) \$75,000
- E) None of the above is correct

20. Balance in Inventory at the end of January

- A) \$69,000
- B) \$62,200
- C) \$75,000
- D) \$37,200
- E) None of the above is correct

21. Cash Balance at the end of January
- A) \$13,500
 - B) \$14,750
 - C) \$15,550
 - D) \$14,100
 - E) None of the above is correct
22. Total sales on account in January
- A) \$12,000
 - B) \$27,000
 - C) \$15,000
 - D) \$0
 - E) None of the above is correct
23. Accounts Payable Balance at end of January is closest to
- A) \$1,500
 - B) \$50,000
 - C) \$26,500
 - D) \$51,500
 - E) None of the above is correct
24. Total Expenses for month of January
- A) \$15,650
 - B) \$15,640
 - C) \$15,150
 - D) \$13,650
 - E) None of the above is correct
25. Balance in Prepaid Insurance at the end of January
- A) \$0
 - B) \$1,750
 - C) \$1,500
 - D) \$1,250
 - E) None of the above is correct

26. The Gross Profit for January under the accrual regime is:

- A) \$0
- B) \$(800)
- C) \$2,200
- D) \$14,200
- E) None of the above is correct

(End of Phillips Retailer Inc.)

Part 2: Independent questions.

Questions 29-44 are independent questions that are not related to the above cases.

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

- 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

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

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

29. If you wanted to find financial information on a Canadian public company such as RIM you would: (quiz)

- A) Visit CIGAR.com
- B) Visit COMPANIES.com
- C) Visit RIM's website
- D) Visit SEDAR.com
- E) Two of the above choices will work

30. Which of the following describes adjusting entries? (quiz)

- A) They are primarily used to change account balances because of accounting errors that have been made.
- B) They usually are recorded as of the 15th day of the accounting period.
- C) They frequently change at least one income statement account balance and one balance sheet account balance.
- D) All of the above statements are correct.
- E) None of the above statements are correct.

31. The CGA Canada is the governing organization of Certified General Accountants in Canada. What is the most likely form of organization of the CGA Canada?
- A) Partnership
 - B) Corporation
 - C) Income trust
 - D) Not-for-profit
 - E) None of the above
32. 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 piece of equipment in production.
 - E) None of the above
33. 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
34. 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
35. 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

36. 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
37. Which of the following normally has a credit balance?
- A) Accounts receivable
 - B) Capital assets
 - C) Prepaid insurance
 - D) Accumulated depreciation
 - E) None of the above
38. A business bought a new delivery truck worth \$45,000. They paid \$5,000 down and took out a loan 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) \$40,000, Cr. Bank loan \$40,000
 - C) Dr. Cash \$5,000, Dr. Bank loan \$40,000, Cr. Capital asset (truck) \$45,000,
 - D) Dr. Bank loan \$40,000, Cr. Capital assets (truck) \$40,000,
 - E) None of the above
39. At the end of the month BBB 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
40. Bigwin Inc. had a loan outstanding during the month, and at the end of the month they paid interest expense of \$200. 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

(End of this exam)