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answer sheet!

# TEST FORM “A”

**York University AP/ADMS2500.03 Introduction to Financial Accounting**  
**Midterm Examination #1**  
**Time: 3.0 hours - Winter 2015 - 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. Ensure your name is on the pink mark sense sheet.

### 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 for the exam version you are writing (A, B or C) 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 on the back of your pink Scantron sheet and submit it with your paper.

### 4. Special Instructions

- This exam is divided into two parts. Part 1 is a case, which is related to a series of questions based on that case. While an attempt has been to minimize the impact of the impact of carry-forward errors in question design, some questions of necessity are related to multiple computations or previous questions, so an error potentially can have multi-mark impact.
- Part 2 are questions based on different and independent scenarios unrelated to the case of Part 1. Double check your transfers to the pink scantron sheet.
- The exam clearly indicates when a group of questions are related to a single data set. Otherwise, assume each question is independent of the others.
- With 180 minutes to do 40 questions, you should budget your time carefully.

**PART 1: MOXING'S SHARP TIES**

*(Questions 1 to 24 are based on this case)*

Mohammed Xing has always been quite a fashion victim, with a special interest in very fancy ties. Over a coffee with his mother, Renée Xing, Mohammed talked about his dream of converting his interest into a business. Renée was kind enough to pay for Mohammed's \$5 tall latte because she knew that starting a business would require a lot of financial resources. She anyhow encouraged her son to pursue his dream, now that his BAS was done and that he was ready to apply all he had learned to the real life.

So on June 1<sup>st</sup>, 2014, Mohammed started his dream business: "*MoXing Sharp Ties*". MoXing sells high-quality ties uniquely designed by Mohammed (at least initially). Mohammed started his business with only \$10,000 that he had managed to save during his BAS studies while he was a TA for many classes, plus working at night in a club. The first thing Mohammed did was to secure the web address [www.moxingsharpties.com](http://www.moxingsharpties.com) and design the website himself. It took him 59 hours between June 1<sup>st</sup> and June 3<sup>rd</sup> to finalize the design of the website, and then he fell asleep of exhaustion once the beta site was ready. In total, MoXing incurred \$120 of start-up expenses for the website, which included "free" hosting fees for the month of June because of a GoDaddy promotion.

On June 1<sup>st</sup>, while taking a short break from website design, Mohammed also sent an order for 500 silk ties based on designs he had already sketched when there was nothing to do in the club he used to work at as a student. A reliable Toronto-based supplier, which Mohammed had identified while finalizing his business plan, took the order for \$10 per tie, payable cash on delivery (C.O.D.) on June 15<sup>th</sup>. While waiting for the first batch of ties to be ready, Mohammed decided to continue to set up his business. Other transactions during the month of June were as follows:

*See next page*

<b>June 2014</b>	<b>Description</b>	<b>Amount</b>
1	Purchased supplies, including wrapping materials on account	\$1,000
1	Signed a contract to rent a small warehouse and office space for \$300 per month. Paid first and last month of the first year with cheque.	\$600
1	Purchased office furniture (including shelving units) for the business with a cheque. After useful life of 5 years, all can be sold for a total of \$100.	\$700
1	Purchased a computer to run the business which depreciates fully over 3 years.	\$720
6	Hired a former SAS classmate for 8 hours @ \$15 per hour to brainstorm on new tie designs. Payment to be deferred until later as per mutual agreement.	\$120
7	Paid in cash the services of a company hired to set up the office furniture and the accounting software.	\$400
8	Purchased a full year of online publicity on website TheChive.com. Normal online banner time for a full month will be displayed in June, so the contract ends May 30 <sup>th</sup> , 2015.	\$1,200
15	Received and paid ties ordered on June 1 <sup>st</sup> .	?
16	Received an order for 40 ties and shipped the same day, paid by money transfer with PayPal.	\$2,400
16	Purolator shipped the ties against an immediate cash payment.	\$250
18	Personal delivery of a 20 ties to a client living in downtown Toronto, cash payment.	\$1,200
20	Pay wage to designer and photographer cash, for improvements to existing website	\$400
25	Special festival sale in a mall. <ul style="list-style-type: none"> <li>• 200 ties sold cash for \$40 each to various people.</li> <li>• 50 ties sold on account \$50 each to a corporate client.</li> </ul>	\$8,000 \$2,500
27	Paid July rent with a cheque.	\$300
29	PayPal monthly fees automatically deducted from bank cash account (and recorded as banking fees).	\$30
<b>Additional Information</b>		
30	Online bank statement shows bank fees of \$32 and interest payment of \$14.	
30	Utilities bill (including telephone and internet access) received for the month of June, payable July 23 <sup>rd</sup> .	\$145
30	On-call delivery man sends an email detailing 20 hours of work during June, payable by July 15 <sup>th</sup> . Hourly rate for delivery work is \$20.	
30	Inventory of supplies were down by half since date of purchase earlier in the month of June.	
30	Inventory of ties available for sale consisted of:	\$1,190

# *MoXing's Sharp Ties (Q1 to Q24)*

## ACCRUAL BASIS ACCOUNTING QUESTIONS (1 to 20)

### BALANCE SHEET, as of June 30, 2014

Q1	What is the balance of the Cash account?	A) \$11,880	B) \$10,290	C) \$21,600	D) \$11,862	E) None of A, B, C or D
Q2	What is the balance of Prepaid Rent?	A) \$600	B) \$0	C) \$900	D) \$300	E) None of A, B, C or D
Q3	What are Total Assets?	A) \$11,892	B) \$19,142	C) \$11,862	D) \$19,172	E) None of A, B, C or D
Q4	What are Total Liabilities?	A) \$1,635	B) \$2,585	C) \$1,665	D) \$9,142	E) None of A, B, C or D
Q5	What is the balance of Accounts Payable?	A) \$0	B) \$1,000	C) \$6,000	D) \$5,000	E) None of A, B, C or D
Q6	What is Accum. Depreciation on Furniture?	A) \$0	B) \$5.83	C) \$11.67	D) \$40	E) None of A, B, C or D
Q7	What is the balance of Inventory?	A) \$500	B) \$1,000	C) \$1,190	D) \$690	E) None of A, B, C or D
Q8	What is the balance of Utilities Payable?	A) \$145	B) \$0	C) \$335	D) \$30	E) None of A, B, C or D
Q9	What is the balance of Wages Payable?	A) \$520	B) \$120	C) \$920	D) \$400	E) None of A, B, C or D
Q10	What is the balance of Supplies?	A) \$0	B) \$1,000	C) \$250	D) \$500	E) None of A, B, C or D

### INCOME STATEMENT, month ending June 30, 2014

Q11	What are Total Revenues from Sales?	A) \$14	B) \$16,927	C) \$2,827	D) \$10,290	E) None of A, B, C or D
Q12	What is Publicity Expense?	A) \$1,200	B) \$400	C) \$100	D) \$1,100	E) None of A, B, C or D
Q13	What is Bank Expense?	A) \$32	B) \$30	C) \$62	D) \$92	E) None of A, B, C or D
Q14	What is Equipment Depreciation Expense?	A) \$0	B) \$20	C) \$12	D) \$720	E) None of A, B, C or D
Q15	What is Cost of Goods Sold?	A) \$1,310	B) \$2,500	C) \$1,190	D) \$3,810	E) None of A, B, C or D
Q16	What is Net Income?	A) \$7,449	B) \$10,262	C) \$7,477	D) \$10,290	E) None of A, B, C or D
Q17	What is Rent Expense?	A) \$300	B) \$600	C) \$900	D) \$150	E) None of A, B, C or D
Q18	What is Wages Expense?	A) \$920	B) \$520	C) \$120	D) \$400	E) None of A, B, C or D

### TRIAL BALANCES, as of June 30, 2014

Q19	What is the Unadjusted Trial Balance? Dr. & Cr.	A) \$10,000	B) \$25,220	C) \$25,500	D) \$12,020	E) None of A, B, C or D
Q20	What is the Post-Adjustments Trial Balance?	A) \$25,809	B) \$10,589	C) \$25,529	D) \$12,609	E) None of A, B, C or D

## CASH BASIS ACCOUNTING QUESTIONS (21 to 24)

### For the month ending June 30, 2014

Q21	What are Total Revenues from Sales?	A) \$14	B) \$16,927	C) \$2,827	D) \$10,290	E) None of A, B, C or D
Q22	What is the Wages Expense?	A) \$920	B) \$520	C) \$120	D) \$400	E) None of A, B, C or D
Q23	What is Equipment Depreciation Expense?	A) \$0	B) \$20	C) \$12	D) \$720	E) None of A, B, C or D
Q24	What is Publicity Expense?	A) \$1,200	B) \$400	C) \$100	D) \$1,100	E) None of A, B, C or D

**Q25. For each statement decide whether it is True or False:**

- A) Current liabilities include all liabilities that are expected to be paid by a company within 10 months of the balance sheet date
- B) The financial statement which presents an overall view of a firm's financial position at a given date is the income statement
- C) The income statement presents financial statement users with the results of earnings activity over a period of time
- D) Retained earnings is the sum of all previous period earnings of the firm, which are in excess of dividends paid out
- E) The purchase of long term capital assets is considered a source of cash for a company

- A) A) is false and the rest are all true
- B) All of the above statements are true
- C) All of the above statements are false
- D) B) is false, E) is false and the rest are true
- E) E) is false and the rest are all true

**Q26. Financial accounting reporting, compared to managerial accounting reporting, must be more standardized. Why is this statement true?**

- A) Managerial accounting reports are used by a wider range of users than financing accounting reports
- B) Managerial accounting reports are mainly used by investors whereas financial accounting reports are mainly used by internal managers
- C) Managerial accounting reports are used all over the world by users whereas the users of financing accounting reports are typically working in the same institution
- D) Financial accounting reports are usually customized and tailored to best suit internal reporting structure
- E) Financial accounting reports are used by a wide range of users (individuals or companies) across the globe and the reports must be useful and understandable by all these users.

**Q27. Which of the following financial statements provides information about sources and uses of cash?**

- A) Income statement
- B) Cash flow statement
- C) Balance sheet
- D) Income statement and cash flow statement
- E) Income statement, balance sheet and cash flow statement

**Q28. The following are accounts in a company's accounting system. Which classification is true for these items?**

1. HST payable
  2. Delivery truck (purchased 3 years ago)
  3. Interest income (earned on savings bank account balance)
  4. Prepaid insurance expense
  5. Shareholder loan payable (shareholder demands repayment in the next 4 months)
  6. Corporate taxes payable to Canada Revenue Agency
- A) 1. Is a current liability, 2 is a current asset, 3 is an income statement item, 4 is a current liability, 5. Is a current liability, 6 is a current liability
  - B) 1. Is a current liability, 2 is a current asset, 3 is an income statement item, 4 is a current asset, 5. Is a current liability, 6 is a current liability
  - C) 1. Is a current liability, 2 is a long term asset, 3 is an income statement item, 4 is a current asset, 5. Is a current liability, 6 is a current liability
  - D) 1. Is a long term liability, 2 is a long term asset, 3 is an income statement item, 4 is a current liability, 5. Is a current liability, 6 is a long term liability
  - E) 1. Is a long term liability, 2 is a long term asset, 3 is an income statement item, 4 is a current liability, 5. Is a current liability, 6 does not get reflected on the financial statements until the Canada Revenue Agency informs the company how much is owed.

**Q29. Lucy's Cupcake Shop's retained earnings increased by \$600,000 during Year 5. Also during Year 5, \$150,000 of dividends was paid to shareholders. Lucy's Cupcake Shops' net income for year 5 was:**

- A) \$150,000
- B) \$450,000
- C) \$600,000
- D) \$750,000
- E) None of the above

**Q30. The balance in all asset accounts combined of Aging Adisson's balance sheet is \$100,000 on March 1. During March, the following transactions took place:**

- Purchase of \$10,000 of clothing inventory for cash
- Purchase of \$15,000 of equipment on account
- Retirement of \$20,000 in bonds with cash

What is the combined March 31 balance in the asset accounts of Aging Adisson's balance sheet?

- A) \$115,000
- B) \$80,000
- C) \$95,000
- D) \$105,000
- E) None of the above

**Q31. Charlie's Coffee House has assets and liabilities of \$30,000 and \$24,000 respectively. If Charlie's Coffee House issues an additional \$3,000 worth of shares for cash, what is the balance in shareholder's equity immediately after this transaction?**

- A) \$9,000
- B) \$33,000
- C) \$27,000
- D) \$30,000
- E) None of the above

**Q32. Which of these statements concerning the rules of accounting is incorrect?**

- A) Debits are always recorded on the left side of a T-Account
- B) Accumulated depreciation always has a credit balance
- C) Assets always have debit balances
- D) Debits reduce shareholder's equity
- E) Credits to T-accounts always mean decreases

**Q33. From the list of selected account balances, determine the total for the current liabilities section of the balance sheet of Happy Hugh's company Ltd.**

Wages payable	\$25,500
Common stock	\$50,000
Bank overdraft	\$85,000
Trade payables	\$4,000
Retained earnings	\$39,000
Unearned revenue	\$5,000 (Happy Hugh's services to be provided in 2 months)

- A) \$208,500
- B) \$119,500
- C) \$29,500
- D) \$34,500
- E) \$169,500

**Q34. During January 20XX, Sevela Company invoiced customers \$5,000 for goods delivered in January 20XX and collected \$6,000 from customers. Included in the \$6,000 was \$500 which was an advance for a sales order which would be filled in November 20XX. Sevela Company should report revenue for January 20XX of:**

- A) \$4,500
- B) \$5,500
- C) \$5,000
- D) \$6,000
- E) Another amount is appropriate

**Q35. Sal's Rentals received cash in the amount of \$14,400 on August 1, 2007 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2007 adjusting entry required is:**

- A) Debit Cash and credit Unearned Rent, \$8,400
- B) Debit Rent Revenue and credit Unearned Rent, \$8,400
- C) Debit Unearned Rent and credit Rent Revenue \$6,000
- D) Debit Rent Revenue and credit Unearned Rent \$6,000
- E) None of the above is appropriate

**Q36. Choose whether each of the following would most likely be part of:**

- A. A computerized accounting system
  - B. A manual accounting system
  - C. All accounting systems.
- 
- 1. Adjusting entries
  - 2. Preparation of financial statements
  - 3. Posting from the general journal to the accounts
  - 4. Reporting dates
- 
- A) 1, 2, and 3 are part of manual accounting systems only and 4. is part of a computerized accounting system.
  - B) 1, and 2 are part of a manual accounting system and 3, and 4 are part of a computerized accounting system.
  - C) 1, 2, 4 are part of all accounting systems and 3 is part of a manual accounting system
  - D) 1, 2, 3 and 4 are part of a manual accounting system
  - E) 1, 2, 3, and 4 are part of all accounting systems

**Q37. Stallion Ltd., bought merchandise for \$1,000, terms 2/10, n/30. If Stallion returns \$150 worth of the goods to the vendor, the entry to record the return should include a:**

- A) Debit to Discounts Lost of \$3.
- B) Credit to Purchases Returns and Allowances of \$147.
- C) Debit to Accounts Payable of \$150.
- D) Debit to Purchases Returns and Allowances of \$147.
- E) C and D are both true.

**Q38. Which of the following documents does not initiate an entry being made in the accounts?**

- A) Sales invoice
- B) Purchase invoice
- C) Purchase order
- D) Credit memo
- E) All of the above initiate an entry being made in the accounts



**Q39. A firm's gross profit on net sales is 35%. The firm had net sales of \$500,000 and net cost of purchases of \$300,000. If the beginning inventory was \$100,000, how much was the ending inventory?**

- A) \$300,000
- B) \$75,000
- C) \$60,000
- D) \$100,000
- E) Impossible because with the information given, we would conclude that the ending inventory would be negative.

**Q40. Failure to make an adjusting entry to recognize service revenue receivable would cause which of the following?**

- A) An understatement of assets, net income, and shareholders' equity.
- B) An overstatement of assets and shareholders' equity and an understatement of net income.
- C) An overstatement of assets, net income, and shareholders' equity
- D) B or C are both possible, depending on the situation.
- E) None of the above is correct.

