

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

Time: 3.0 hours

Summer 2015

Questions: 30

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 on the front of your exam and submit the exam with your answer 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 prudent to transfer your answers to the computer 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.

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. No phones allowed on desks.
- Bring appropriate ID as proof of registration. 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 out of the exam room 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 10 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 so that exams can recommence, within 30 minutes of the alarm. 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 will have the student relocated to the front of the room. Second instance results in seizure of paper and relocation to the dustbin of history.

8. **Special Instructions**

- This exam is a case, which then has 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.

Marcela's Tutoring Service

(Questions 1 to 30 are based on this case. All questions are equal weighted)

Marcela Magnifico had just retired from a thirty year career teaching accounting at York University and wanted to give something back to her institution and to her adopted country for the wonderful years she had enjoyed in Canada since immigrating from her native South America. Since her children were grown and she had nothing but time on her hands she decided to start a tutoring service for students at York. It was not in Marcela's character to sit idle and she saw this as a way to keep active.

On May 1, 2015 she began the business by transferring \$10,000 of her own savings to a business bank account at CIBC. In addition to a supply of cheques in the name of Marcela's Tutoring, the bank also gave her a VISA credit card in the name of the business. The card has an initial limit of \$5,000. End of month balances are due within 30 days. She also went down to city hall and bought a business license for \$840 in the name of "Marcela's Tutoring" and paid by cheque. The license allowed her to operate as an unincorporated business within Toronto and was good for 12 months from the issue date and would have to be renewed annually.

To acquire business premises, she signed a one year lease with the mall manager for a small store in the strip-mall on Keele St across from the university. Monthly rent was \$3,000 and she had to pay the first and last month's rent in advance.

Seeing that her capital was fast being depleted before she had even commenced operations she borrowed \$5,000 on May 1 from her colleagues still teaching and deposited this money in the bank. This loan was due to be repaid in six months and interest on the loan was \$100 per month. Both interest and the principal amount of \$5,000 was to be repaid as a single lump sum on maturity.

On May 3 Marcela purchased some computer equipment for \$3,000 and some office furniture from a used furniture store for \$600. She expected that the equipment would last 5 years. However she planned to truly retire in three years at which time she planned to shut down the business and spend all her time with her grandchildren. The computer equipment is estimated to have a residual value of \$300 and the furniture would be donated to a thrift shop in 2 years at which time a relative had promised to give her some upscale furniture for free. These assets would be amortized monthly using straight line amortization. Marcela paid cash for the furniture but bought the computer with the bank card just to practice using it. Since unpaid balances bear interest at the outrageous rate of 18 percent per annum but Marcela she religiously never allowed credit card balances to carry over past due and made sure it was paid on June 3 on receipt of the VISA statement.

Marcela decided her tutoring business would have two principal activities. One was the sale of practice exams and solutions and the other was the rendering of actual tutoring services.

Exams would sell for \$5 each. Since she had been teaching for thirty years she had a supply of hundreds of old exams she could use. Tutoring was done by contract at a rate of \$25 per hour. Since she was selling e-copies only, there were no paper or packaging costs. Students would pre-purchase blocks of tutoring time in ten hour chunks at \$250 per block. Any hours unused at month end would be carried over to the next month. Since she was dealing with customers of suspect financial resources (students) all transactions were for cash.

Marcela realized students would only patronize her business if they knew of her existence and some promotion would be necessary. On May 1 she signed an advertising contract with York University to place an ad on their university website for the month of May. This cost \$2,000 per month and was payable upfront. She also signed a contract on May 1 with Toronto Transit Commission to place a banner ad on their buses and subway cars for \$8,000 per month. The TTC ad would be invoiced to her and on receipt of invoice she had 30 days to pay. She received the invoice on May 16 and decided to take advantage of the 30 days free credit terms.

Marcela did not do the tutoring herself but hired senior students with high GPA's to do the tutoring. Since no one tutor worked more than 20 hours a week for her, they were classified by the Ontario government as casual labour. In other words she did not have to set them up as employees and collect taxes or other withholdings. Each tutor merely submitted an invoice at month end and she wrote them a cheque on the spot just like for any other purchase. Tutors are paid \$10 per hour. Income and payroll taxes remained thus the full responsibility of the tutors. In all likelihood because of their low income, they would also be exempt from taxes. Each tutor was required to give students a receipt for each hour of tutoring and a copy of the receipts had to be attached to the tutor's invoice to Marcela to trigger payment. Marcela also used these receipts to determine how many hours bought by students each month needed to be carried over to next month. This information was essential for proper revenue recognition in accrual based financial statements.

Note that since this business is set up as a sole proprietorship Marcela was not shown as an employee. She did take \$900 in "drawings" from the business in May to pay for meals and taxis. Also note that as a proprietorship the business pays no income taxes. She reports income from the business on her personal tax return and is responsible for income taxes on her own income.

Incidental costs incurred by Marcela during May included the following:

- She bought a liability insurance policy for \$1,200 on May 1 that covered her against any lawsuits by students who failed their courses despite receiving tutoring assistance. This was a one year policy. She received and paid the bill on June 4.

- She paid utilities on the store (hydro, water etc.) for to the City of Toronto. The invoice of \$400 for May's utilities was received June 4 and paid immediately.
- Bank charges for May totaled \$70 and were deducted on her May bank statement.
- She hosted a dinner for all the tutors and gave each a small token gift (a T shirt with the name of the business). This cost her \$700 and was charged to promotion expense.

One incidental revenue item occurred during the month. She was using two student interns from the business school and who were not paid but were getting some valuable business experience. The university gave her a cheque for \$200 and a certificate in recognition of her support of business education. She treated this as miscellaneous revenue.

The summary of sales for the month of May is shown in Table 1 below.

Table 1
Sales Summary for Marcela's Tutoring
Month of May, 2015

Sale of exams	\$22,000
Sale of ten hour tutoring blocks (80 blocks @ \$250)	\$20,000
Receipts turned in by tutors on May 31	600 hours of tutoring

Marcela's review of her accounting records before making month end adjusting entries showed one problem – her trial balance did not balance. A closer inspection showed that a cheque written to a cleaning service that cleaned the office for \$98 had been properly credited to cash but posted to the expense account as \$89.

CHART OF ACCOUNTS FOR MARCELA'S TUTORING

<i>G/L Account #</i>	<i>Name</i>	<i>Balance dr</i>	<i>Balance cr</i>
cr	Cash		
101	Accounts Receivable		
102	Inventory		
103	Prepaid Taxes & Licenses		
104	Prepaid Advertising and Promotion		
105	Prepaid Insurance		
106	Prepaid Rent		
107	Miscellaneous Prepaid Expenses		
108	Equipment		
109	Accumulated Depreciation – Equipment		
110	Furniture		
111	Accumulated Depreciation – Furniture		
112	Accounts Payable		
113	Bank loans Payable (VISA)		
114	Loans Payable – Other		
115	Interest Payable		
116	Revenue Received in Advance		
117	Drawings		
118	Owners Equity		
119	Sales Revenue - Exams		
120	Sales Revenue – Tutoring		
121	Cost of Sales – Tutoring		
122	Miscellaneous Revenue		
123	Taxes and Licenses Expense		
124	Rent Expense		
125	Insurance Expense		
126	Depreciation Expense – Equipment		
127	Depreciation Expense – Furniture		
128	Advertising & Promotion Expense		
129	Miscellaneous Prepaid Expense		
130	Interest Expense		
131	Cleaning Expense		
132	Utilities Expense		
133	Bank Charges Expense		

HINT: Time is precious on this exam. You need to work quickly but systematically. Obviously, you need to pay very close attention to which accounts are going to need adjusting entries at end of period. You should use the next few blank pages to set up your T accounts, record your adjustments and do your draft financials before answering the questions on specific balances. You should check your debit/credit duality when done posting by using the chart of accounts as a trial balance

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Questions on Marcela's Tutoring

1. Total revenue for May (accrual basis) is:
 - A. \$22,000
 - B. \$37,000
 - C. \$37,200
 - D. \$42,000
 - E. Some other amount

2. Total revenue for May (cash basis) is:
 - A. \$22,000
 - B. \$37,000
 - C. \$37,200
 - D. \$42,200
 - E. Some other amount

3. The balance in the cash account on May 31 before adjustments is:
 - A. \$14,384
 - B. \$39,992
 - C. \$45,992
 - D. \$48,946
 - E. Some other amount

4. The balance in the cash account on May 31 after adjustments is:
 - A. \$14,384
 - B. \$39,992
 - C. \$45,992
 - D. \$48,946
 - E. Some other amount

5. The total balance of prepaid expenses before month end adjustments is:
 - A. \$16,040
 - B. \$18,040
 - C. \$20,040
 - D. \$22,040
 - E. Some other amount

6. The total balance of prepaid expenses after month end adjustments is:
 - A. \$4,870
 - B. \$5,885
 - C. \$6,442
 - D. \$8,808
 - E. Some other amount

7. Net Capital Assets after adjustments May 31 are:
- A. \$3,400
 - B. \$3,600
 - C. \$3,650
 - D. \$3,500
 - E. Some other amount
8. Accounts Payable May 31 after adjustments is:
- A. \$9,000
 - B. \$9,200
 - C. \$9,400
 - D. \$9,600
 - E. Some other amount
9. The balance in Revenue Received in Advance May 31 after adjustments is:
- A. \$20,000
 - B. \$5,000
 - C. \$8,000
 - D. \$ 12,000
 - E. Some other amount
10. Total Current Liabilities May 31 after adjustments is:
- A. \$22,700
 - B. \$23,500
 - C. \$24,220
 - D. \$25,700
 - E. Some other amount
11. Cost of Sales on tutoring for May is:
- A. \$5,000
 - B. \$6,000
 - C. \$7,000
 - D. \$8000
 - E. Some other amount
12. Prepaid Taxes and Licenses Expense for May is:
- A. \$44
 - B. \$54
 - C. \$64
 - D. \$74
 - E. Some other amount

13. Rent Expense for May is:
- A. \$0
 - B. \$3,000
 - C. \$4,000
 - D. \$6,000
 - E. Some other amount
14. Insurance Expense for May is:
- A. \$50
 - B. \$150
 - C. \$200
 - D. \$250
 - E. Some other amount
15. Depreciation Expense for May is:
- A. \$25
 - B. \$50
 - C. \$75
 - D. 100
 - E. Some other amount
16. Advertising and Promotion Expense for May is:
- A. \$0
 - B. \$10,000
 - C. \$10,700
 - D. \$8,700
 - E. Some other amount
17. Interest Expense for May is:
- A. \$0
 - B. \$50
 - C. \$100
 - D. \$150
 - E. Some other amount
18. Cleaning Expense for May is:
- A. \$89
 - B. \$98
 - C. \$0
 - D. \$89 + \$98
 - E. Some other amount

19. Utilities Expense for May is:
- A. \$0
 - B. \$200
 - C. \$400
 - D. \$600
 - E. Some other amount
20. Income taxes shown on Marcela's May's Income Statement are:
- A. Less than zero \$ (a refund is expected)
 - B. Zero \$
 - C. Between \$10,000 and \$20,000
 - D. An amount that cannot be determined without a rate being given
21. The formal income statement prepared for May would include the heading:
- A. As at May 31, 2015
 - B. For the period ended May 31, 2015
 - C. For the month ended May 31, 2015
 - D. Marcela's Tutoring Service Ltd.
 - E. None of the above are correct
22. In preparing the financial statements for Marcela's:
- A. The order does matter and the Owner's Equity Statement must be prepared first
 - B. The order does matter and the Balance Sheet must be prepared first
 - C. The order does matter and the Cash Flow Statement must be prepared first
 - D. The order of preparation does not matter
 - E. None of the above
23. If Marcela had established a Petty Cash Account of \$100 in June and the account had a \$80 balance on June 30 and a replenishment entry had not been made on June 30 then:
- A. Net income would have been understated in June
 - B. Net income would have been overstated in June
 - C. Net income in June would have been unaffected by this
 - D. There is not enough information to say
24. If the General Ledger balance of Cash for Marcela's Tutoring had been \$14,000 on June 30 before reconciliation and the only reconciling item was a deposit in transit then:
- A. The balance on the June 30 bank statement must have been higher than \$14,000
 - B. The balance on the June 30 bank statement must have been lower than \$14,000
 - C. The balance on the June 30 banks statement must have been \$14,000
 - D. It is impossible to say from the information provided

25. Outstanding cheques on Marcela's bank reconciliation are:
- A. Added to the balance per bank
 - B. Deducted from the balance per bank
 - C. Added to the balance per books
 - D. Deducted from the balance per books
 - E. Are added to one section and deducted from the other
26. The adjusting journal entries made by Marcela from the bank reconciliation:
- A. Are all taken from the section headed "Balance per Bank"
 - B. Are all taken from the section headed "Balance per Books"
 - C. Can be taken from either section
 - D. The bank reconciliation does not result in adjusting journal entries
27. If Marcela decided to start selling for both cash and credit in June and offered terms of 2/10 n/30 then any discounts taken in June:
- A. Would show as an addition to June revenues
 - B. Would show as a deduction from June revenues
 - C. Would show as an addition to June expenses
 - D. Would show as a deduction from June expenses
 - E. Have impact only on the Balance Sheet
28. If Marcela starting selling pillow speakers designed for listening to accounting lectures during sleep during June and bought 1000 speakers on June 2 and put these in a "Purchases" general ledger account then Marcela is using the:
- A. Perpetual inventory method
 - B. Straight line inventory method
 - C. Contra inventory method
 - D. Periodic inventory method
 - E. Cash basis inventory method
29. If opening inventory of pillow speakers for Marcela July 1 is **greater** than ending inventory July 31 and Marcela made no sales of speakers in July than this is most likely explained by:
- A. Additional purchases of speakers in July
 - B. Shrinkage (theft or damage to inventory)
 - C. There is no rational business reason that would explain this scenario
30. The father of accounting is:
- A. Brian Gaber
 - B. Luigi Lugosi
 - C. Luca Pacioli
 - D. Guido Gallileo
 - E. No one – Accounting is an orphan

End of Exam – Make sure you transfer all your answers to the Computer scantron sheet at least 15 minutes before the end of exam and check your transfers. You may keep this exam paper and take it from the exam room.

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Introduction to Financial Accounting

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Time: 3.0 hours

Summer 2015

Questions: 30

Answers:

Q1	C		Q16	C
Q2	D		Q17	C
Q3	C		Q18	B
Q4	B		Q19	C
Q5	B		Q20	B
Q6	A		Q21	C
Q7	D		Q22	E
Q8	D		Q23	B
Q9	B		Q24	B
Q10	A		Q25	B
Q11	B		Q26	B
Q12	E		Q27	B
Q13	B		Q28	D
Q14	E		Q29	B
Q15	D		Q30	C