



BUSI 1003 – Survey of Accounting

Mock Mid Term Exam

- There are 5 questions on this exam and 12 pages. Please verify that you all have all of the pages.
- Non-programmable calculators without alpha storage capability may be used.
- Non-electronic (paper) translation dictionaries may be used. The dictionary should not have any written notations in the margins or blank pages.
- All other electronic or telecommunication devices should be turned **off** and left in your bag at the front of the examination room or under your chair.

Question	1 - Multiple Choice Questions	2	3	4	5	Total
Available Marks	30	8	6	12	4	60
Student's Mark						

**Question 1 — MULTIPLE CHOICE - 30 questions - Each question is worth 1 mark.
(30 marks, 60 minutes)**

Instructions: Chose the best answer for each of the following questions.

1. The matching principle states that:
 - a) Assets must match Liabilities and Shareholders' Equity
 - b) Dividends must match Net Income
 - c) Expenses must be recorded in the same period as the revenues that they give rise to.
 - d) Retained Earnings must match liabilities.

2. Shareholders are primarily interested in:
 - a) the assets of a company
 - b) the profitability of a company
 - c) the liabilities of a company
 - d) the goodwill recorded on the Balance Sheet

3. What accounts would be listed on an Income Statement?
 - a) Fees Earned, Rent Expense and Wages Expense
 - b) Cash, Accounts Receivable and Prepaid Expenses
 - c) Net Income and Dividends
 - d) Sheldon's quirky sense of humour

4. The following accounts appeared on the Balance Sheet of Wolowitz Engineering:

Accounts Payable	\$ 100	Capital Stock	\$3,000	Retained Earnings	\$2,000
Cash	2,540	Bank Loan	2,300	Accounts Receivable	5,320
Machinery	10,500	Bonds Payable	18,560	Goodwill	7,600

What is the total amount of assets?

- a) \$37,570
 - b) \$25,960
 - c) \$20,960
 - d) \$5,000
-
5. How should Bernadette Inc. record the payment of an amount she owes her supplier?
 - a) Increase cash and increase accounts payable
 - b) Decrease cash and decrease accounts payable
 - c) Increase cash and increase loans payable
 - d) Decrease cash and decrease retained earnings

6. The Balance Sheet of Cooper Labs showed the following beginning and ending balances for March 2014:

	Total Assets	Total Liabilities
Beginning balance	\$10,430	\$7,250
Ending balance	16,880	10,300

Cooper did not declare any dividends during the month but he did issue \$3,000 in capital stock. How much was net income for the month?

- a) \$400
 b) \$3,400
 c) \$6,450
 d) \$3,050
7. Farrah Fowler Research Ltd. provided lab services for Koothrapalli Inc. and invoiced him \$34,200. How should she record this entry?
- a) Increase Unearned Revenue and Increase Retained Earnings
 b) Increase Cash and Increase Retained Earnings
 c) Increase Accounts Payable and Increase Retained Earnings
 d) Increase Accounts Receivable and Increase Retained Earnings
8. Which of the following is NOT considered a liability account?
- a) Accounts Payable
 b) Accounts Receivable
 c) Unearned Revenues
 d) Note Payable
9. The Balance Sheet of Farrah Fowler Ltd. as at February 28, 2014 had the following information:
- | | | | |
|------------------|----------|---------------------|--------|
| Accounts Payable | \$30,000 | Accounts Receivable | 75,000 |
| Capital Stock | 60,000 | Retained Earnings | ? |
| Cash | 110,000 | Supplies | 15,000 |
- What is the balance of Retained Earnings?
- a) \$ 90,000
 b) \$225,000
 c) \$140,000
 d) \$110,000
10. At Hofstadter Inc., total assets increased by \$44,000 during the year and total liabilities increased by \$12,000 during the same time. Net income during the year was \$35,000 and dividends paid were \$10,000. How much capital stock was issued?
- a) \$7,000
 b) \$25,000
 c) \$32,000
 d) Hofstadter should consider another line of business. He's not making enough income.

11. In March 2014, Facebook Inc. received \$340,000 from one of their customers for ads that will be posted on users' accounts in January 2015. How should Facebook record this receipt?
 - a) Increase Cash and Increase Unearned Revenue
 - b) increase Prepaid Expenses and Increase Unearned Revenue
 - c) This transaction will not affect any of their accounts
 - d) Increase assets and increase retained earnings

12. The balance in the Supplies account, before adjustment at the end of the year, is \$4,000. What is the required adjustment if the amount of supplies that were actually counted at the end of the year is \$1,750?
 - a) increase supplies account by \$1,750
 - b) increase supplies account by \$2,250
 - c) decrease supplies account by \$2,250
 - d) decrease supplies account by \$1,750

13. Koothrapalli Inc. pays \$3,000 for an insurance premium for coverage from January 1, 2013 to December 31, 2015. (It's a 3 year policy.) On December 31, 2013, how much is the balance of the Prepaid Insurance account?
 - a) \$1,500
 - b) \$3,000
 - c) \$2,000
 - d) \$1,000

14. Which of the following accounts should be classified as a current asset?
 - a) Note Payable
 - b) Accounts Receivable
 - c) Dividends
 - d) Property, Plant and Equipment

15. At the end of the month at Bernadette Ltd., \$19,900 of fees have been earned but not billed to clients. How should Bernadette record this?
 - a) Increase Cash and increase Accounts Payable
 - b) Decrease Unearned Revenue and Increase Retained Earnings (Fees Earned)
 - c) Increase Accounts Receivable and Increase Retained Earnings (Fees Earned)
 - d) Bernadette should do a better job of recording her billings on time.

16. On October 1, Sheldon Cooper Labs signs a contract and receives \$30,000 from his customer. He performs the work evenly over the months of October and November. When should he record the revenue for this contract?
 - a) \$15,000 in October and \$15,000 in November
 - b) \$30,000 in October
 - c) \$30,000 in November
 - d) He can record revenue whenever he'd like.

17. At Koothrapalli Curry Shop, total sales for the year were \$8,300,000, sales discounts were \$100,000, sales returns and allowances were \$45,000. The cost of merchandise sold during the year was \$5,000,000. Operating expenses totalled \$2,000,000. What is the amount of gross profit?
- \$8,200,000
 - \$8,155,000
 - \$1,155,000
 - \$3,155,000

18. The following data were found in the accounting records of Farrah-Fowler Lab Supplies:

Merchandise Inventory, May 1, 2013	\$175,000
Merchandise Inventory, April 30, 2014	240,000
Purchases	1,400,000
Purchase returns and allowances	20,000
Purchase discounts	18,000
Sales	2,250,000
Freight In	13,000

Farrah Fowler uses the periodic inventory system. What is the amount of gross profit she should report on the income statement for the year ended April 30, 2014?

- \$1,375,000
 - \$1,310,000
 - \$ 940,000
 - \$ 875,000
19. Leonard sells merchandise to Sheldon for \$1,000. The terms of the sale are FOB Shipping Point, 1/10, n/30. If Sheldon pays within the discount period, how much will the discount be?
- \$ 100
 - \$ 10
 - \$ 1
 - \$ 30
20. Using a perpetual inventory system, the purchase of \$30,000 of merchandise on account would include a(n):
- increase in Sales.
 - increase in Merchandise Inventory.
 - decrease in Merchandise Inventory.
 - decrease in Sales.
21. On March 1, 2014, Bernadette lent \$5,000 to Howard. Howard signed a promissory note that specified that he would repay the \$5,000 back to Bernadette, along with 6% interest on July 31, 2014. How much will Howard pay Bernadette on July 31?
- \$5,125
 - \$5,000
 - \$5,300
 - Bernadette should just give Howard the money. She shouldn't make him pay her back.

22. At the end of the year, before the accounts are adjusted, the Allowance for Doubtful Accounts has a negative balance of \$250. An aging of the Accounts Receivable balance indicates that the estimate of uncollectible accounts is \$850. How much is the Bad Debts Expense for the year?
- a) \$ 600
 - b) \$ 850
 - c) \$ 250
 - d) \$1,100
23. At the end of the year, before the accounts are adjusted, the Allowance for Doubtful Accounts has a negative balance of \$250. The company estimate bad debts expense using the percentage of credit sales method. Total credit sales for the year were \$100,000. The company estimates that 0.6% of credit sales will be uncollectible. How much is the Bad Debts Expense for the year?
- a) \$250
 - b) \$350
 - c) \$850
 - d) \$600
24. Bernadette's Creepy Experiments Ltd. bought some lab equipment for \$50,000. She estimates that the equipment will have a useful life of 5 years and a salvage value of \$5,000. If she uses the double declining balance method of depreciation, how much will depreciation expense be for the second year of the equipment's life?
- a) \$10,000
 - b) \$12,000
 - c) \$20,000
 - d) \$ 9,000
25. Which of the following is an example of an intangible asset?
- a) Patents
 - b) Accounts Receivable
 - c) Land
 - d) Effective study habits
26. Koothrapalli Inc. purchased equipment on July 1, 2014 for \$16,200. The equipment was expected to have a useful life of 3 years and a residual value of \$900. Koothrapalli uses the straight method of depreciation. What is the amount of depreciation for the year ended December 31, 2014?
- a) \$2,550
 - b) \$5,100
 - c) \$1,800
 - d) \$ 900

Use the following data for questions 27 and 28:

At Penny Blossoms Ltd., the inventory records show the following information:

- Beginning Inventory - 27 units at \$600 each
- Purchase #1 - 54 units at \$690 each
- Purchase #2 - 63 units at \$780 each
- Purchase #3 - 56 units at \$825 each

Penny has 48 units on hand at the end of the month and she uses the periodic inventory system.

27. What is the cost of the inventory she should report on the Balance Sheet if she uses the First In First Out (FIFO) method?
- a) \$39,600
 - b) \$28,800
 - c) \$125,400
 - d) \$118,110
28. What is the cost of the inventory she should report on the Balance Sheet if she uses the Weighted Average (or Average Cost) method?
- a) \$118,110
 - b) \$ 34,740
 - c) \$113,088
 - d) \$ 35,712
29. Penny Blossoms bought a delivery van for \$50,000. On October 20, the balance in the accumulated depreciation account was \$15,000. On that day, she got into an accident with the van and it was a complete write off. Her insurance company paid her \$30,000. How should she record this transaction?

	Assets =			Liabilities +	Equity
	Cash	Van	Accum. Deprec.-Van	Accounts Payable	Retained Earnings
a)	+\$30,000	+\$50,000	-\$15,000		+\$65,000
b)	-\$30,000	-\$50,000	+\$15,000	-\$65,000	
c)	+\$30,000	-\$50,000	+\$15,000		-\$5,000
d)		+50,000	-\$15,000		-\$35,000

30. Hofstadter Research Services Inc. bought a vehicle for \$36,000. Leonard figures that the car will have a useful life of 8 years and a residual value of \$1,000. How much will the depreciation expense be for the first year if Hofstadter uses the straight line method of depreciation?
- a) \$4,500
 - b) \$9,000
 - c) \$4,375
 - d) Leonard should give this car to Penny. One of her car's warning lights is on and it's bothering Sheldon.

Answer questions 2, 3, 4 & 5 in the space below each question.

Question 2 - 8 marks (16 minutes)

Koothrapalli Inc. began operations on January 1, 2014. The following transactions occurred during the year:

- a) Rajesh Koothrapalli invested \$15,000 of his own money into the business in exchange for 1,000 common shares.
- b) On April 1, Rajesh bought a number of pieces of equipment for his lab. In total, they cost \$10,000. He paid cash for them. The equipment is expected to have a useful life of 5 years with no salvage value.
- c) On February 1, 2014, he signs a one year lease and pays \$2,000 in total for rent for February 2014 and January 2015 (first and last month's rent x \$1,000/month).
- d) He made his first sale! On October 1, he finished some research for Leonard's Applied Physics Ltd. and invoiced him \$20,000 for this work.
- e) Rajesh buys lab supplies worth \$2,000 and pays cash.

Information for Adjusting Entries on December 31:

- 1) Rajesh take depreciation using the double declining method.
- 2) Rajesh owes his employees \$200 for work they did to December 31, 2014. He will pay them in January.
- 3) He counts the lab supplies and finds that he has \$500 worth of supplies left in the cupboard.

	A					=	L +	E	
	Cash	Prepaid Expenses	Accounts Receivable	Lab Supplies	Equip-ment	Accum. Deprec.	Wages Payable	Capital Stock	Retained Earnings
a)									
b)									
c)									
d)									
e)									
Adj. #1									
Adj. #2									
Adj. #3									

Question 3 - 6 marks (12 minutes)

The following transactions took place at Cooper's Molecular Model Shop:

July 3	Purchased 300 models for \$6 each. Terms 2/10, n/45
July 9	Returned 10 models from the July 3rd purchase because they were the wrong variety.
July 13	Paid the remaining amount due from the July 3rd purchase.
Aug 1	Sold 50 models to Farrah Fowler Inc. for \$10 each. Payment terms are 1/15, n/45. The cost of the models to Cooper were \$6 each.
Aug 19	Received payment for the amount owed by Farrah Fowler Inc.

Cooper's Models uses the perpetual inventory method.

Record all of the journal entries for the above transactions.

Question 4 - 12 marks (24 minutes)

The following items were taken from the February 28, 2014 financial statements of Emily Inc.

Salaries Expense	\$ 96,000	Accounts receivable	\$ 86,500	Supplies	\$ 23,200
Capital Stock	40,000	Bad Debts Expense	10,800	Advertising Expense	24,000
Accounts payable	57,000	Administrative Expenses	73,400	Equipment	60,000
		Accumulated Depreciation-Equip.	30,000	Sales	400,200
Inventory	122,800	Notes payable (due July 30, 2019)	103,600	Unearned Revenue	52,600
Land	36,000	Cash	17,800	Cost of Goods Sold	143,000

The beginning retained earnings balance was \$18,100. Dividends of \$8,000 were paid during the year.

Required: a) Prepare a multi-step income statement for the year ending February 28, 2014.

		\$
		\$

b) Calculate Retained Earnings as at February 28, 2014: _____

c) Prepare the classified balance sheet as at February 28, 2014.

ASSETS		LIABILITIES & SHAREHOLDERS' EQUITY	
	\$		\$
	\$		\$

Question 5 - 4 marks, 8 minutes

The Comic Center of Pasadena's inventory records for Marvel Comic Books show the following data for 2014:

Beginning Inventory	300 comic books at \$4.50 each
February 9, 2014	125 comic books for \$4.85 each
May 4, 2014	240 comic books for \$5 each
November 7, 2014	335 comic books for \$5.25 each

At the end of the year, Stuart had 145 Marvel comic books left in his store.

Calculate the Cost of Goods Sold for the year using:

a) First In First Out (FIFO) inventory costing method

b) Weighted Average cost inventory costing method

BUSI 1003
Mid Term Marking Key

Question 1 - Multiple Choice questions: 30 marks – 1 mark each question

1	C	16	A
2	B	17	D
3	A	18	C
4	B	19	B
5	B	20	B
6	A	21	A
7	D	22	A
8	B	23	D
9	D	24	B
10	A	25	A
11	A	26	A
12	C	27	A
13	C	28	D
14	B	29	C
15	C	30	c

Question 2 – 8 marks 1 mark each transaction

	A					=	L +	E	
	Cash	Prepaid Expenses	Accounts Receivable	Lab Supplies	Equip-ment	Accum. Deprec.	Wages Payable	Capital Stock	Retained Earnings
a)	+15,000							+15,000	
b)	-10,000				+10,000				
c)	-2,000	+1,000 or +\$2,000							-1,000 Or no effect
d)			+20,000						+20,000
e)	-2,000			+2,000					
#1						-3,000			-3,000
#2							+200		-200
#3				-1,500					-1,500

Question 3 – 6 marks –

	A =			L +	E	
	Cash	Merchandise Inventory	Accounts Receivable	Accounts Payable	Retained Earnings	Marks
July 3		+1,800		+1,800		1 mark
July 9		-60		-60		1 mark
July 13	-1,705.20	-34.80		-1,740		1.5 marks
Aug 1		-300	+500		+200	1.5 marks
Aug 19	+500		-500			1 mark

Question 4 - 12 marks – ½ mark for each 😊

Emily Inc. Income Statement For the year ended February 28, 2014 😊		
Sales		\$400,200 😊
Cost of Goods Sold		143,000 😊
Gross Profit		257,200 😊
<u>Operating Expenses:</u>		
Salaries Exp.	\$96,000 😊	
Bad Debts Exp.	10,800 😊	
Admin.Exp.	73,400 😊	
Advertising Exp.	24,000 😊	204,200
Net Income		\$53,000

d) Calculate Retained Earnings as at February 28, 2014: $\$18,100 + \$53,000 - \$8,000 = \$63,100$ 😊

Emily Inc. Balance Sheet (As at) February 28, 2014 😊			
ASSETS		LIABILITIES & SHAREHOLDERS' EQUITY	
<u>Current Assets</u> 😊		<u>Current Liabilities</u> 😊	
Cash	\$17,800 😊	Accounts Payable	\$57,000 😊
Accounts Receivable	86,500 😊	Unearned Revenue	52,600 😊
Inventory	122,800 😊	Total current liabilities	109,600
Supplies	23,200 😊	<u>Long Term Liabilities</u>	
Total Current Assets	250,300	Note Payable	103,600 😊
<u>Capital Assets/Property, plant & Equip/Fixed Assets</u> 😊		Total Liabilities	213,200
Land	36,000 😊	<u>Shareholders' Equity</u>	
Equipment	60,000 😊	Capital Stock	40,000 😊
Accum.Deprec.	(30,000) 😊	Retained Earnings	63,100
Total Capital Assets	66,000	Total Shareholders' Equity	103,100
Total Assets	\$316,300	Total liab.&S/E	\$316,300

Question 5 - 4 marks –

a) 2 marks

Number of comic books sold = $300 + 125 + 240 + 335 - 145 = 855$ comic books

300 comic books at \$4.50 each	\$1,350.00
125 comic books for \$4.85 each	606.25
240 comic books for \$5 each	1,200.00
190 comic books for \$5.25 each	997.50
855 comic books	\$4,153.75

b) Average cost: 2 marks

$$\frac{\$1,350 + \$606.25 + \$1,200 + (335 \times \$5.25)}{300 + 125 + 240 + 335} = \frac{\$4,915}{1,000 \text{ books}} = \$4.915/\text{book}$$

$$\text{COGS} = \$4.915 \times 855 \text{ books} = \$4,202.325$$