

# Additional Midterm Practice Questions

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## How should I study for the midterm (and final exam!)?

You are likely similar to most students when they study....they do what will help them the least (highlighting, re-reading). Unfortunately, those strategies test **recognition** (being able to recognize information) but not **recall** (being able to call up information when you need it). **Midterms and exams in accounting test recall**....so using your old high school strategies is useless for study purposes in a university-level accounting course.

## According to research, what works well for courses that require recall?

### **#1: Write your own questions and then solve them.**

There are three different types of questions you should make up. First, questions about the concepts (called knowledge questions). This is best done using cue cards (Dollarama sells a package for \$1). While reading the chapter, write questions on one side of the card and the solution on the other.

### *Can you give me an example?*

Sure. From page 1 of Chapter 1 an appropriate card would have the following:

Question: What is a business?

Solution: Making, buying, or selling goods or providing services for money.

Once you have all your cards set up for the chapter you don't need to review your chapter any more...you do that automatically when you go through the cards!

### *OK, concept questions I understand. What's the second type of question I should make up?*

Second, questions that apply the concepts (called application questions). This is where you have to apply a concept and calculate something.

### *Can you give me an example?*

OK. From page 2 of Chapter 1, the first **Check your understanding** question asked you what business sector a fashion designer is in and why it belongs in that sector. Knowing the three business sectors is a knowledge question BUT being able to apply that concept to figure out

which businesses are in which sectors is an application of knowledge. These types of questions are what make up many of the end of chapter Practice Questions.

To make up these questions go to the end of chapter Practice Questions. Using those as inspiration make up new questions (with new scenarios, new numbers). Then write a solution.

Application questions take more time to make up than knowledge questions (after all, knowledge questions come right from the chapter!) but they have high value for recall purposes.

KEY for application questions: solve them without looking at the chapter information. If you are solving application questions with your textbook and notes open beside you, then you have now made them recognition questions...and you lost the value of writing the questions for recall!!

***OK, knowledge and application questions I understand. What's the third type of question I should make up?***

Questions that analyze the results of the application questions (called analysis questions). These take the results of the application questions and try and figure out what they mean.

***Can you give me an example?***

There are a lot of examples in the Practice Questions at the end of every chapter but let's just make one up here so you get a good idea of what you are looking for in the Practice Questions. Say you just completed the financial statements for a business (that would be an application question, by the way!) Analysis questions using those financial statements would be as follows:

What is the business's financial position? (You need to know that financial position is shown by the balance sheet and then you would need to be able to analyze what is happening on the balance sheet.)

Is the business profitable? What, if anything, could the business do to become more profitable if it is unable to increase sales? (You need to know that profitability comes from the income statement and be able to review the operating expenses so you can determine where you can cut costs.)

What are the company's main sources (inflows) of cash? Does this make sense considering the industry it is in? (You need to know that cash flows are only shown on the statement of cash flows and then which activities have the greatest inflow. Also, which activities SHOULD have inflow, and for which activities would it make more sense to see an outflow instead of an inflow.)

There are a lot of analysis questions included in the Practice Questions at the end of each chapter. When you are making up the application questions, develop the analysis questions at the same time. Then solve them.

*OK, this sounds like A LOT of work!!! What else does research show works well for recall?*

**#2: Regularly (disbursed practice) solve mixed up (interweaving) NEW questions with no aids (close your textbook and notes!)**

**Disbursed practice** means that you have to write questions regularly....**NOT** one or two practice sessions 2 to 3 days before the midterm and final exam. **Massed practice** (cramming is what you call it) is useless for recall. That's because, when you group all your practice into a short period of time, you are testing recognition, NOT RECALL! So practise every night for a period of time...not cramming for one or two nights right before the midterm or exam. The same NUMBER OF MINUTES of practice when it is disbursed gets better midterm results than cramming. Makes sense...our memories work best when they are tested after a short time of forgetting. Disbursed practice (dividing practice over time) allows a short forgetting time so you can better practise your recall.

**Interweaving** means you mix up what you are studying. Most students will do all of the Chapter 1 questions first. They feel like they "get it" by the end of doing all the Chapter 1 questions so they move on to Chapter 2...and never touch Chapter 1 again. But, this is the same as massed practice (see above if you already forgot what that is!). You might FEEL like you got Chapter 1 but, really, about halfway through the Chapter 1 questions you started working on recognition....not recall.

Write practice questions in a random order. For example, write one question from Chapter 1, then one from Chapter 5, then one from Chapter 2....mix them up. First, it better tests recall AND because that is how you will see them on the midterm or final exam!

**NO AIDS allowed!!** NEVER open your textbook or notes when you are writing questions....EVER. When you can't figure something out read the question again, slowly, and then write down everything you DO know...and then struggle some more.

Research shows that, in North America, the average time a student struggles with a question is 5.4 minutes before giving up and looking at the solution....which is then testing your RECOGNITION but not your RECALL!! Compare that to the Philippines (they out-rank North American students in academic outcomes for both math and science). They work on a question for approximately 25 minutes before giving up. As a consequence they LEARN more because learning is a struggle and the more we struggle the more your brain has to work at RECALL!!

## *Is there anything else I can do to improve the likelihood of passing the midterm?*

Yes....work in **cooperative groups** to do all of the above. Discussing when you understand and don't understand something helps your brain to remember...and that helps your ability to recall information later on. Students who work in cooperative groups outside of class outperform all other students, regardless of IQ. We learn best through discussion and particularly discussion with students who are studying the same thing. **Research shows the optimal (best) size group is 3 to 4.** Unfortunately, groups of 2 don't show the same benefits....because groups of 2 often strengthen misconceptions (misunderstandings) and don't disagree enough (which is good for learning as long as it's friendly disagreeing).

**Ask questions.** Your instructors are there for you during their office hours. If you don't understand something go and ASK. After all, that's what they are there for. Research shows that students who visit an instructor during office hours outperform all the remaining students in a course. This is likely because they get the help they need when they need it...instead of struggling on their own.

Being successful in a university course is not like being successful at high school. Many students found high school easy - they did nothing but highlight, reread, and cram to get good marks. That's not going to happen in a university accounting course. We expect you to be able to solve problems...and for that you have to be able to use recall.

## *So how do I start?*

Below are ADDITIONAL practice questions (because students asked for more questions....not because the end of chapter questions were not enough, but because students would like more!) They are all new and you have never seen them before. The solutions are NOT in this document (removing the temptation to check out the solutions without struggling) and they are mixed up (interweaving). Start here...and then keep going. **Being able to do these questions without looking at your notes or the chapters tells you that you have the ability to recall information when you need it....and that's exactly what you need to be able to do for the midterm.** You should also be able to do all the practice questions from the end of every chapter (which you should have been doing already!)...and then make up some of your own.

So, here are more questions as requested by students for additional practice. I hope that they help you to practise the recall you require for the midterm.

The charts included in this package can all be filled out on the computer. However, we recommend that you print them out anyway, fill them out by hand, then check your answers with the solutions in a separate document. You won't be doing your exam on a computer!

# Practice Questions - Midterm

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## PQMR-1

Why is financial information important to stakeholders?


## PQMR-2

What does GAAP stand for? Why is GAAP used?


## PQMR-3

Using the critical and enhancing questions, analyze the business activities that you had in the first month of operations. Record the business activities into the basic accounting equation. A chart is provided for you. Answer the question that follows the chart.

1. You invest \$7,500 of cash into a business.
2. Borrowed \$5,000 from your parents to help start the business.
3. Using a credit card, registered a business name with Service Ontario, \$60.
4. You purchase a 1 year general liability insurance policy for \$1,200 plus 8% sales tax. You pay using cash.
5. You open a business bank account at the local Royal Bank. You will be charged \$25 at the end of every month. The bank account comes with a free Royal Bank VISA business credit card in your name.





**PQMR-4**

An advertising business would be in which business sector? Support your choice with reasoning. (HINT: whenever you have to support your choice with reasoning, tie your answer into the definition of the sector you chose.)


**PQMR-5**

You run a wholesale business, Genoma Inc., selling inventory to small retail stores. During the month of July, 2016, you have the following transactions. Record each of the transactions into the expanded accounting equation using account names. The chart has been provided for you. Answer the questions after completing the chart.

Date	Description
July 1	Have opening balances as follows: cash of \$7,289, inventory of \$4,260, owner's capital of \$8,000, and retained earnings of \$3,549.
July 2	Purchased inventory from PJG Inc. for \$5,900, terms 2/10, n/30, FOB shipping point.
July 3	The appropriate party paid \$130 freight on the purchase.
July 7	Returned \$1,000 of inventory to PJG Inc. because it was the wrong model. The return was shipped FOB shipping point.
July 8	The appropriate party paid \$95 freight on the return.
July 9	Sold inventory to Vindi Inc. for \$6,800 on account, terms 1/10, n/30. The cost of the merchandise was \$4,400. Shipping terms were FOB destination.
July 10	The appropriate party paid \$100 freight on the sale.
July 11	Paid PJG Inc. for the purchase on July 2.
July 13	Some of the inventory sold to Vindi Inc. on July 9, with a sales price of \$900 and a cost of \$600, was returned because it was the wrong colour. It was shipped FOB shipping point and returned to inventory.
July 14	The appropriate party paid \$85 freight on the return.
July 17	Purchased inventory from Namboni Inc. for \$920 cash, FOB destination.
July 18	The appropriate party paid \$25 freight on the purchase.
July 19	Vindi Inc. paid for the sale on July 9.

Continued on the next page!!

July 21	Received a \$120 cash refund from Namboni Inc. for damaged inventory that was returned. It was shipped FOB shipping point.
July 22	The appropriate party paid \$15 freight on the return.
July 23	Sold inventory to Hinderling Ltd. for \$7,800, terms 3/5, n/15. The cost of the merchandise was \$5,600. Shipping terms were FOB shipping point.
July 24	The appropriate party paid \$130 freight on the sale.
July 27	Gave an allowance of \$600 to Hinderling Ltd. for inventory that was the wrong model. They have agreed to keep it so no inventory was returned.
July 28	Hinderling Ltd. paid for the sale on July 23.

***You should attempt the chart before completing these questions. You don't have to print it out, and you may have more lines than you need. Account names are given, and totals have been provided so you can check your work. This will not be the case on the exam!***

Provide the multiple step income statement to the gross profit line. NOTE: be sure to provide the appropriate title for this partial income statement!


What was the gross profit ratio for your business, Genoma Inc.? Would you consider this gross profit margin good? Why or why not?


Why is the gross profit ratio (the percentage) a better measure than gross profit (the dollar amount) to determine how well the business did for the month?


On July 13 some of the inventory sold to Vindi Inc. on July 9 was returned because it was the wrong colour. It was shipped FOB shipping point. Who paid for the return shipping costs? If you paid, which account did you charge the shipping costs to and why? Why do you think the shipping terms were FOB shipping point instead of FOB destination?


As a purchaser, what shipping terms would you prefer: FOB shipping point or FOB destination? Why, as a purchaser, do you prefer those shipping terms?


As a seller, what shipping terms would you prefer: FOB shipping point or FOB destination? Why, as a seller, do you prefer those shipping terms?


Date	Assets			Liabilities	Equity							Dividends
					Owner's Capital	Retained earnings						
				Profit								
	Cash	Accounts Receivable	Inventory	Accounts Payable	Owner's Capital	Retained Earnings	Revenue		Expenses			
						Sales	Sales Returns & Allowances	Sales Discounts	Cost of Goods Sold	Shipping Expenses		
Opening	7,289	0	4,260	0	8,000	3,549	0	0	0	0	0	
July 1												
July 2												
July 3												
July 7												
July 8												
July 9												
July 10												
July 11												
July 13												
July 14												
July 17												
July 18												
July 19												
July 21												
July 22												
July 23												
July 24												
July 27												
July 28												
Totals:	14,197	0	592	0	15,000	3,451	14,600	-1,480	-275	9,400	185	

**PQMR-6**

A student starts a lawn care business for the summer of 2016. Below is the financial data for the summer as well as a description of what the amounts relate to. Identify the elements that each item belongs to and then answer the questions which follow.

Description	Amount	Element
Gas costs (used)	\$1,152	
Money you put in to start the business	\$2,250	
Equipment rental costs	\$4,200	
Scooter purchased (personal)	\$1,962	
Cash in bank (personal)	\$3,867	
Money borrowed from parents to start business.	\$1,500	
Cash in bank (business)	\$7,680	
Cell phone costs (personal)	\$432	
Advertising costs	\$450	
Cell phone costs (business)	\$648	
Customer payments	\$10,500	
Container full of gas	\$120	

Profit is (insert your amount)      \$
Calculations (show your work):

Which data from the listing would **not** be included in the business's financial data and why? If this data was included which assumption would the business be violating? Explain why.


Assets are (insert your amount)	\$
Liabilities are (insert your amount)	\$
Equity is (insert your amount)	\$

The basic accounting equation is \_\_\_\_\_.

Calculations:



## PQMR-9

You start a business designing websites on October 1, 2015, called Websites NOW. You have designed a number of websites in the past and think this may be a way to earn some extra cash during your years at university. You will be using your existing computer equipment so you don't need to purchase anything but supplies such as ink cartridges and paper. You plan to attend networking events for entrepreneurs to advertise your services. It is now October 31, 2015, the end of your first month of operations.

1. You invest \$2,500 of cash into the business.
2. Borrowed \$2,000 from your parents to help start the business. You do not have to pay it back for 2 years and they are not charging you interest.
3. You open a business bank account at the local TD Bank®. You will be charged \$22 at the end of every month. The bank account comes with a free (no annual fee) TD Bank Mastercard business credit card in your name.
4. Using a credit card, you registered a business name with Service Ontario, \$60.
5. You purchase a 1 year general liability insurance policy for \$600 plus 8% sales tax. You pay using cash.
6. Purchased supplies that will be used in the future for \$400 plus HST using your credit card.
7. Purchased 3,000 business cards from Staples for \$200 plus HST using your credit card.
8. Produced 2,000 flyers advertising your business. The cost of the flyers was \$0.05 each plus HST. You pay using your credit card.
9. Register for the Toronto Entrepreneurs Conference, Standard Exhibitor, \$600, plus additional charges for Wireless Internet and Electricity (\$50 each). They also charge you HST. The event will run next month, from November 4th, 2015. You pay with your credit card.
10. Advertise your business on Kijiji, reposting the ad daily to ensure it has a top spot.
11. Distributed one-third of all your flyers and business cards at various government offices which cater to new businesses.
12. Design and complete 2 websites for customers. Received cash from customers for services provided, \$2,450.
13. Design and complete a website for one customer who has not, as yet, paid (\$950). You have sent the customer an invoice and will follow up early next month.
14. At the end of the period you had \$275 of supplies left.
15. Your cell phone costs \$112 (including all taxes). You used your cell phone 75% for business purposes and pay for that portion out of your business bank account using cash.
16. Your parents charge you \$250 for use of the space for your business plus \$100 for the utilities and internet access you used over the month. You pay them in cash.
17. A customer asks you to design her a website with the ability for customers to place orders on the website. She pays you \$500 in advance. You have not, as yet, completed any work.

18. The bank withdraws the monthly banking fee from your business bank account.
19. You have used up one month of your insurance.
20. You want to set aside the amount you will need for income taxes so that, when you file your tax return, you are not caught without the necessary cash. You calculate that you will pay 25% for income tax.
21. You pay \$1,250 towards your credit card but the remainder of the amount is still outstanding.

**Required:**

Analyze the business activities using the critical and enhancing questions. Once analyzed, record the business activities using the expanded accounting equation **and** account names. A chart has been provided for you on the next page. You don't have to print it out, but you may want to as the font will be small. It's a large chart!

A question follows the chart.









- 12a. Paid cash of \$500 plus HST for a booth at a Support Your Small Business Conference held in Mississauga.
- 12b. Used up all of your business cards during the conference.
13. At the end of the period you had only \$175 of supplies left.
14. Your cell phone costs \$192 (including all taxes). You used your cell phone 75% for business purposes and pay for that portion out of your business bank account using cash.
15. Your parents charge you \$500 for use of the space for your business plus \$90 for the utilities you used over the month. You pay them in cash.
16. The bank withdraws the monthly banking fee from your business bank account.
17. You have used up one month of your insurance.
18. Paid your business credit card at the end of the month.

***The chart is provided on the next page. You do not have to print it out to fill it in. More lines have been provided than you will need.***







**PQMR-16**

Using the below noted listing create ALL of the financial statements for the December 31, 2015 year-end, including the cash flow statement, in good form. The two right-hand columns will help you organize the accounts.

<b>Account Name</b>	<b>Amount</b>	<b>Element / Activity</b>	<b>Financial Statement</b>
Accounts payable	18,540		
Accounts receivable	52,350		
Additional cash received from owners	24,000		
Bank loan payable, due in 2019	27,000		
Business licence	1,080		
Cash	54,000		
Cash collected from customers	212,220		
Cash paid for dividends	26,700		
Cash paid for intangible assets	14,340		
Cash paid in financing charges (interest)	10,665		
Cash paid to suppliers	181,335		
Cash received from the bank	27,000		
Cash, opening balance	23,820		
Dividends	26,700		
Income tax expense	13,380		
Income tax payable	6,000		
Insurance expense	10,800		
Interest expense	10,800		
Interest payable	135		
Owners' capital	48,000		
Prepaid insurance	10,800		
Rent expense	32,460		
Retained earnings	38,235		
Salaries expense	85,500		
Service revenue	225,000		
Supplies	15,750		
Supplies expense	20,250		
Travel and entertainment expense	17,100		
Unearned revenue	2,400		
Website design	14,340		

Answer the questions which follow the statements.







**PQMR-17**

Below are listed the balances for *4U Consulting Inc. on December 31, 2017*. All of the accounts and items are listed in random order. FIRST, without looking at any of your notes determine if the description is an account or an activity. If it is an account indicate the element and the sub-element if applicable (for example, current or long term liabilities). If it is an activity indicate what type of activity it is. Use the following short forms: A for assets, L for liabilities, E for equity, R for revenues, and X for expenses, IS for income statement, RE for statement of retained earnings, BS for balance sheet, CF for statement of cash flows, O for operating, I for investing, and F for financing. Remember to indicate for each activity if it is an inflow (+) or an outflow (-).

Account/Activity Name	Amount	Element / Activity	Financial Statement
Cash payments to suppliers	6,760.97		
Unearned revenue	1,450.00		
Purchase of intangibles	180.00		
Bank charges expense	44.97		
Accounts receivable	2,850.00		
Cash payments for interest on debt	100.00		
Interest payable	50.00		
Cash receipts from customers	8,850.00		
Cash received from debt	6,000.00		
Utilities expense	300.00		
Prepaid Insurance	1,782.00		
Cash	15,309.03		
Loan payable	6,000.00		
Income tax expense	2,010.00		
Accounts payable	650.52		
Capital contributions by owners	7,500.00		
Telephone expense	252.00		
Insurance expense	162.00		
Income tax payable	2,010.00		
Interest expense	150.00		
Rent expense	750.00		
Office supplies	1,028.38		
Owner's capital	7,500.00		
Office supplies expense	516.58		
Business licence	180.00		
Service revenue	10,200.00		
Prepaid rent	2,525.55		





Does the current cash position of the business come from the cash you generated from your operations or another source?


***PQMR-18***

Provide the flowchart that shows the interconnection between the financial reporting elements.

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**PQMR-28**

Name two external stakeholders and their main objectives with regards to a business. (HINT: objectives are represented by what questions stakeholders might ask, given what they want from a business.)


**PQMR-29**

What qualities does financial information need in order to make it useful for decision making?


**PQMR-30**

Solve for the unknown numbers.

Assets	Liabilities	Equity
\$425,600		\$128,400
	\$527,000	\$244,000
\$298,000	\$170,800	

**PQMR-31**

What are financial reporting assumptions and why are they important?


**PQMR-32**

Which statements are bankers most likely to use and why? (HINT: consider the questions bankers would want answered.)


**PQMR-33**

Greene Company doubled their liabilities between the beginning and end of the year. If assets at the end of the year were \$286,400 and equity was \$159,500, what are beginning (also called opening) liabilities?

Opening liabilities are (insert your amount)            \$
Calculations (show your work):

