ACCT 201 Fundamentals of Financial Accounting

Spring 2011/2012
Midterm Exam 1
17 March 2012

Student Name: ...
Gust ID: ...
Instructor Name: Kash Alussi
Section Number: ..............................................

Instructions:

1- Make sure you have 10 pages in total including this one.
2- NO MOBILE phones are permitted in the exam. Any student using a mobile phone during the exam will receive a ZERO mark.
3- Cheating will automatically result in an F mark.
4- Show all your calculations. No answer will be considered without supporting calculations, if needed.

GOOD LUCK 😊
Q1: Multiple Choice Questions: (20 points)

1- Which of the following accounts increases with a debit?
   A) Unearned revenue.
   B) Interest payable
   C) Prepaid insurance
   D) Both A and B

2- A business purchases equipment for cash in the amount of $8,000. Which of the following occurs?
   A) Cash is credited for $8,000.
   B) Cash is debited for $8,000.
   C) Equipment is debited for $8,000.
   D) Both A and C occur.

3- Owner’s equity is $150,000 and total liabilities are $90,000. Total assets would be:
   A) $300,000.
   B) $180,000.
   C) $60,000.
   D) $240,000.

4- A business pays $500 cash for supplies. Which of the following occurs?
   A) Cash is debited for $500.
   B) Accounts payable is credited for $500.
   C) Supplies is debited for $500.
   D) Both B and C occur.

5- An accrued expense is an expense that:
   A) the business has paid, but not yet incurred.
   B) will be incurred and paid in the future.
   C) the business has incurred, but not yet paid.
   D) has been paid and incurred

6- A promise from customers to pay for goods and services that they received from a company represents:
   A) accounts receivable.
   B) accounts payable.
   C) revenues.
   D) expenses.

7- Which of the following concepts (or principles) would most likely require that data be verifiable?
   A) Cost principle
   B) Reliability concept
   C) Entity concept
   D) Going-concern concept
8- A business completes services for $16,000 on account. Which of the following occurs?
   A) Cash is debited for $16,000.
   B) Accounts receivable is debited for $16,000.
   C) Service revenue is credited for $16,000.
   D) Both B and C occur.

9- The Supplies account is an example of a(n):
   A) accrued revenue.
   B) accrued expense.
   C) prepaid expense.
   D) unearned revenue.

10- Which of the following reports a company's results of operations?
    A) Balance sheet
    B) Statement of owner’s equity in a proprietorship
    C) Adjusted trial balance
    D) Income statement

13 - Which of the following would be considered a contra-account?
    A) Depreciation expense
    B) Accumulated depreciation
    C) Unearned revenue
    D) Earned revenue

14- Listed here are five steps in the accounting cycle: (1) balancing the general ledger, (2) preparing an unadjusted trial balance, (3) analyzing transactions and source documents, (4) recording original transactions in the general journal, and (5) posting to ledger. Using the numbers shown above, place these steps in the correct accounting cycle order.
    A) 1, 2, 3, 4, 5
    B) 2, 3, 1, 4, 5
    C) 3, 4, 5, 1, 2
    D) 4, 1, 3, 5, 2

15- An automobile's price is $20,000. The company owner is a good negotiator and only pays $18,000 for the automobile. Which accounting principle requires the automobile be recorded at $18,000 in the accounting records of the business?
    A) Business entity principle
    B) Monetary-unit principle
    C) Historic Cost principle
    D) Going-concern principle

16- Which of the following accounts will be closed by crediting the Income Summary?
    A) Service revenue
    B) Depreciation expense
    C) Accounts payable
    D) Accumulated depreciation
17- Posting is the process of transferring items entered in a general journal to the
   A) Worksheet.
   B) Trial Balance.
   C) General ledger.
   D) Financial statements.

18- To what account is the balance in the Income summary closed?
   A) The Income summary is closed to the withdrawals account.
   B) The Income summary is closed to the net income account.
   C) The Income summary is closed to the capital account.
   D) None of the above is correct.

19- An adjusting entry would never include a:
   A) An asset account and a credit to a revenue account.
   B) A liability account and a credit to a revenue account.
   C) An expense account and a credit to a revenue account.
   D) An Expense account and a credit to a contra asset account.

20- An adjusting entry that debits Accounts receivable is an example of a(n):
   A) prepaid expense.
   B) accrued revenue.
   C) accrued expense.
   D) unearned revenue.
Chapter 2  
Q2: Leonard Matson completed these transactions during December of the current year: (30 points)

Dec.  1  Began a financial services practice by investing $15,000 cash and office equipment having a $5,000 value.
2  Purchased $1,200 of office equipment on account.
3  Purchased $300 of office supplies on account.
4  Completed work for a client and immediately received a Payment of $900 cash.
8  Completed work for ABC Co. on account, $1,700.
10  Paid for the supplies purchased on account on December 3.
14  Paid for the annual $960 premium on an insurance policy.
18  Received payment in full from ABC Co. for the work Completed on December 8.
27  Leonard withdrew $650 cash from the practice to pay personal expenses.
30  Paid $175 cash for the December utility bills.
30  Received $2,000 from a client for financial services to be rendered next year.

Required 1- Prepare Journal entries  
2- Prepare the T- account to cash account only.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cash $15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital $15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Equipment $1,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Account Payable</td>
<td>$1,200</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Office Supplies $300</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Account Payable</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Cash $900</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Revenue</td>
<td>$900</td>
<td></td>
</tr>
<tr>
<td>#</td>
<td>Description</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Account Receivable &amp; Service Revenue &amp; E</td>
<td>1720</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Account Payable &amp; A</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash &amp; A</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Pre Paid Insurance &amp; A</td>
<td>960</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash &amp; A</td>
<td>960</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Cash &amp; A</td>
<td>1720</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Account Receivable &amp; A</td>
<td>1720</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Withdrawal &amp; E</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash &amp; A</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Utility &amp; A</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash &amp; A</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash &amp; A</td>
<td>2000</td>
<td>2000</td>
</tr>
<tr>
<td>---</td>
<td>----------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td></td>
<td>unearned revenue↑</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000</td>
<td>2</td>
<td>175</td>
</tr>
<tr>
<td>4</td>
<td>1700</td>
<td>3</td>
<td>980</td>
</tr>
<tr>
<td>5</td>
<td>900</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>6</td>
<td>15,000</td>
<td>5</td>
<td>300</td>
</tr>
</tbody>
</table>

Total: 19,680
Total: 20,95

Balance: 17515
Chapter 3
Q3: Prepare Adjusting entry for the following transactions: (15 points)

1- On August 1, Al-Raya Company paid $24,000 in advance for a two-year insurance policy. Prepare the adjusting entry on December 31.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 1</td>
<td>[J]: prepare insurance</td>
<td>24000</td>
<td>24000</td>
</tr>
<tr>
<td></td>
<td>cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 31</td>
<td>[Adj]: insurance exp</td>
<td></td>
<td>5000</td>
</tr>
<tr>
<td></td>
<td>premium ins. exp</td>
<td></td>
<td>5000</td>
</tr>
</tbody>
</table>

2- Al-Yasmina Company has a calendar-year end and provides internet services. On September 1, a check for $448 was received from a customer for eight months' services in advance. Prepare the adjusting entry the company should make on December 31.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 1</td>
<td>[J]: cash</td>
<td>448</td>
<td>448</td>
</tr>
<tr>
<td></td>
<td>unearned revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 31</td>
<td>[Adj]: unearned rev</td>
<td>224</td>
<td>224</td>
</tr>
<tr>
<td></td>
<td>service revenue</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3- Al-Salwa Company has a calendar year-end accounting period. On September 1, the company purchased office equipment for $30,000. It is estimated that the office equipment will depreciate $300 each month. The adjusting entry is:

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 1</td>
<td>[J]: equipment</td>
<td>30000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 31</td>
<td>[Adj]: depreciation</td>
<td>1200</td>
<td>1200</td>
</tr>
<tr>
<td></td>
<td>equipment exp.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>accumulated depreciation</td>
<td></td>
<td>1200</td>
</tr>
</tbody>
</table>

300 x 4
4- Ahmad Company has two employees earning $300 per week and $350 per week, respectively. They are paid each Friday for five-day workweek that begins on Monday. This year, December 31 fell on Wednesday. The next payment day will be on January 2. The adjusting entry is:

<table>
<thead>
<tr>
<th>Date</th>
<th>Account title</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Salaries exp $E</td>
<td>390</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salaries payable $L</td>
<td></td>
<td>390</td>
</tr>
</tbody>
</table>

\[
300 \times \frac{2}{7} = 100 \times 3 = 300 \\
350 \times \frac{2}{7} = 100 \times 5 = 500
\]

5- AL-Amal Company began the year with a $3,000 balance in the Office Supplies account. During the year, $8,500 additional office supplies were purchased. A physical count revealed that office supplies on hand at year-end totaled $1,500. The adjusting entry is:

<table>
<thead>
<tr>
<th>Date</th>
<th>Account title</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Supplies exp $E</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplies $L</td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

\[
\text{Supplies, } \begin{array}{c}
\text{Buy} \\
\text{purchases}\end{array} \quad \begin{array}{c}
\text{on hand} \\
\text{used}
\end{array} \\
\begin{array}{c}
\text{Balance} \\
\text{$3,000}
\end{array} \\
\begin{array}{c}
\text{Purchased} \\
\text{$8,500}
\end{array} \\
\begin{array}{c}
\text{On hand} \\
\text{at year-end} \\
\text{$1,500}
\end{array} \quad \begin{array}{c}
\text{Used} \\
\text{$10,000}
\end{array}
\]