

## **Mid-Term Exam I (Sample)**

Part I: Multiple Choices (2 points for each question, 36 points in total)

1. After closing entries are posted, the balance in the retained earnings account in the ledger will be equal to
  - a. the beginning retained earnings reported on the retained earnings statement.
  - b. the amount of the retained earnings reported on the statement of financial position.
  - c. zero.
  - d. the net income for the period.
  
2. The purpose of the post-closing trial balance is to
  - a. prove that no mistakes were made.
  - b. prove the equality of the statement of financial position account balances that are carried forward into the next accounting period.
  - c. prove the equality of the income statement account balances that are carried forward into the next accounting period.
  - d. list all the statement of financial position accounts in alphabetical order for easy reference.
  
3. Which account balance will change between the adjusted trial balance and the post-closing trial balance?
  - a. Retained Earnings
  - b. Share Capital-Ordinary
  - c. Interest Payable
  - d. Accumulated Depreciation
  
4. A correcting entry
  - a. must involve one statement of financial position account and one income statement account.
  - b. is another name for a closing entry.
  - c. may involve any combination of accounts.
  - d. is a required step in the accounting cycle.

5. Stine Company paid €850 on account to a creditor. The transaction was erroneously recorded as a debit to Cash of €580 and a credit to Accounts Receivable, €580. The correcting entry is

a. Accounts Payable .....	850
Cash.....	850
b. Accounts Receivable .....	580
Cash.....	580
c. Accounts Receivable .....	580
Accounts Payable .....	580
d. Accounts Receivable .....	580
Accounts Payable .....	850
Cash.....	1,430

6. A flower shop makes a large sale and provides flowers to a customer for \$1,000 on November 30. The customer is sent a statement on December 5 and a check is received on December 10. The flower shop follows IFRS and applies the revenue recognition principle. When is the \$1,000 considered to be earned?

- a. December 5.
- b. December 10.
- c. November 30.
- d. December 1.

7. Adjusting entries are required

- a. yearly.
- b. quarterly.
- c. monthly.
- d. every time financial statements are prepared.

8. Wing Company had the following transactions during 2019:
- Sales of ¥72,000 on account
  - Collected ¥32,000 for services to be performed in 2020
  - Paid ¥10,000 cash in salaries
  - Purchased airline tickets for ¥4,000 in December for a trip to take place in 2020

What is Wing's 2019 net income using accrual accounting?

- a. ¥62,000.
  - b. ¥94,000.
  - c. ¥90,000.
  - d. ¥58,000.
9. Hercules Company purchased a computer for \$4,500 on December 1. It is estimated that annual depreciation on the computer will be \$900. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:
- a. Debit Depreciation Expense, \$900; Credit Accumulated Depreciation, \$900.
  - b. Debit Depreciation Expense, \$75; Credit Accumulated Depreciation, \$75.
  - c. Debit Depreciation Expense, \$3,600; Credit Accumulated Depreciation, \$3,600.
  - d. Debit Office Equipment, \$4,500; Credit Accumulated Depreciation, \$4,500.
10. Valuing assets at their fair value rather than at their cost is inconsistent with the:
- a. economic entity assumption.
  - b. historical cost principle.
  - c. periodicity assumption.
  - d. full disclosure principles.
11. A company using the same accounting principles from year to year is an application of
- a. timelines.
  - b. consistency.
  - c. full disclosure.
  - d. materiality.

12. Which of the following statements related to the adjusted trial balance is **incorrect**?
- It shows the balances of all accounts at the end of the accounting period.
  - It is prepared before adjusting entries have been made.
  - It proves the equality of the total debit balances and the total credit balances in the ledger.
  - Financial statements can be prepared directly from the adjusted trial balance.
13. The best interpretation of the word credit is the
- offset side of an account.
  - increase side of an account.
  - right side of an account.
  - decrease side of an account.
14. An account will have a credit balance if the
- credits exceed the debits.
  - first transaction entered was a credit.
  - debits exceed the credits.
  - last transaction entered was a credit.
15. The Dividends account
- appears on the income statement along with the expenses of the business.
  - must show transactions every accounting period.
  - is increased with debits and decreased with credits.
  - is not a proper subdivision of retained earnings.
16. Rusthe Company showed the following balances at the end of its first year:

Cash	\$ 19,000
Prepaid insurance	1,400
Accounts receivable	7,000
Accounts payable	5,600
Notes payable	8,400
Share capital-ordinary	4,800
Dividends	1,400
Revenues	45,000
Expenses	35,000

What did Rusthe Company show as total credits on its trial balance?

- a. \$65,200
- b. \$62,400
- c. \$63,800
- d. \$66,600

17. The economic entity assumption requires that the activities
- a. of different entities can be combined if all the entities are corporations.
  - b. must be reported to the Securities and Exchange Commission.
  - c. of an entity be kept separate from the activities of its owner.
  - d. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
18. The common characteristic possessed by all assets is
- a. long life.
  - b. future economic benefit.
  - c. tangible nature.
  - d. great monetary value.

Part II: Problems (66 points in total)

1.

The following items (in thousands) were taken from the financial statements of Zhao Company. (All dollars are in thousands.)

Mortgage payable	¥2,443	Accumulated depreciation—equip.	3,655
Prepaid insurance	880	Accounts payable	1,444
Equipment	13,500	Notes payable (due after 2020)	368
Long-term investments	764	Share capital—ordinary	6,000
Short-term investments	3,690	Accounts receivable	1,696
Notes payable (due in 2020)	981	Inventories	1,756
Cash	3,168	Retained earnings	10,563

**Instructions**

- (1) Prepare a classified statement of financial position in good form as of December 31, 2020. (10 points)
- (2) Compute Zhao Company's current ratio. (2 points)
- (3) Please comment on the ability of Zhao Company to meets its short-term debts. (2 points)

2. The income statement of Hall Marine Repairs is as follows:

HALL MARINE REPAIRS  
Income Statement  
For the Month Ended April 30, 2020

Revenue		
Service Revenue .....		£8,500
Expenses		
Salaries and Wages Expense .....	£3,900	
Supplies Expense .....	1,050	
Insurance Expense .....	600	
Utilities Expense .....	400	
Depreciation Expense .....	<u>350</u>	
Total Expenses .....		<u>6,300</u>
Net Income .....		<u>£2,200</u>

On April 1, the retained earnings account had a balance of £12,900. During April, the company paid £3,000 in dividends.

**Instructions**

- (a) Prepare closing entries at April 30. (8 points)
- (b) Prepare a retained earnings statement for the month of April. (4 points)



3. The trial balance of Drysdale Company shown below does not balance.

DRYSDALE COMPANY  
Trial Balance  
June 30, 2020

	<u>Debit</u>	<u>Credit</u>
Cash .....	£ 2,600	
Accounts Receivable.....	7,600	
Supplies.....	600	
Equipment.....	8,300	
Accounts Payable.....		£ 9,766
Share Capital-Ordinary .....		1,952
Dividends .....	1,500	
Service Revenue .....		15,200
Salaries and Wages Expense .....	3,800	
Maintenance and Repairs Expense .....	1,600	
Totals.....	<u>£26,000</u>	<u>£26,918</u>

An examination of the ledger and journal reveals the following errors:

- (1) Each of the above listed accounts has a normal balance per the general ledger.
- (2) Cash of £170 received from a customer on account was debited to Cash £710 and credited to Accounts Receivable £710.
- (3) A dividend of £300 was posted as a credit to Dividends, £300 and credit to Cash £300.
- (4) A debit of £120 was not posted to Salaries and Wages Expense.
- (5) The purchase of equipment on account for £700 was recorded as a debit to Maintenance and Repairs Expense and a credit to Accounts Payable for £700.
- (6) Services were performed on account for a customer, £310, for which Accounts Receivable was debited £310 and Service Revenue was credited £31.
- (7) A payment on account for £225 was credited to Cash for £225 and credited to Accounts Payable for £252.

**Instructions**

Prepare a correct trial balance. (10%)

4. The following ledger accounts are used by the Chicago Heights Dog Track:

Accounts Receivable

Prepaid Advertising

Prepaid Rent

Unearned Ticket Revenue

Advertising Expense

Rent Expense

Ticket Revenue

Sales Revenue

### **Instructions**

For each of the following transactions below, prepare the journal entry (if one is required) to record the initial transaction and then prepare the adjusting entry, if any, required on September 30, the end of the fiscal year. (12 points)

- (a) On September 1, paid rent on the track facility for three months, \$210,000.
- (b) On September 1, sold annual tickets for admission to the racetrack. The racing ticket is year-round with 25 racing days each month. Annual ticket sales totaled \$840,000.
- (c) On September 1, borrowed \$300,000 from First National Bank by issuing a 9% note payable due in three months.

5.

(1) Journalize the following transactions for Mercado Company for June 2020, the company's first month of operations. You may omit explanations for the transactions. (8 points)

- a. Purchased equipment on account for \$6,000.
- b. Billed customers \$5,000 for services performed.
- c. Made payment of \$1,500 on account for equipment purchased earlier in the month.
- d. Collected \$2,400 on customer accounts.

(2) Use the information in part I to answer the following questions. (4 points)

- a. What is the balance in Accounts Payable at June 30, 2020?
- b. What is the balance in Accounts Receivable at June 30, 2020?

6. One item is omitted in each of the following summaries of statement of financial position and income statement data for three different corporations, X, Y, and Z. Determine the amounts of the missing items, identifying each corporation by letter. (6 points)

	Corporation		
	X	Y	Z
Beginning of the Year:			
Assets	£380,000	£150,000	£199,000
Liabilities	270,000	105,000	168,000
End of the Year:			
Assets	450,000	185,000	195,000
Liabilities	280,000	95,000	149,000
During the Year:			
Issued additional <u>ordinary shares</u>	?	79,000	80,000
Dividends	90,000	83,000	?
Revenue	195,000	?	187,000
Expenses	170,000	113,000	175,000

Answer key:

**I. Multiple choice questions:**

1	2	3	4	5
B	B	A	C	D
6	7	8	9	10
C	D	A	B	B
11	12	13	14	15
B	B	C	A	C
16	17	18		
C	C	B		

**II. Problems:**

(P1)

(1)

ZHAO COMPANY  
Statement of Financial Position  
December 31, 2020  
(in thousands)

Assets			
Property, plant, and equipment			
Equipment .....	¥13,500		
Less: Accumulated depreciation—equip. ....	<u>(3,655)</u>	¥ 9,845	
Long-term investments .....		764	
Current assets			
Prepaid insurance .....	880		
Inventories .....	1,756		
Accounts receivable .....	1,696		
Short-term investments .....	3,690		
Cash .....	<u>3,168</u>	11,190	
Total assets .....		<u>¥21,799</u>	
Equity and Liabilities			
Equity			
Share capital-ordinary .....	¥6,000		
Retained earnings .....	<u>10,563</u>	¥16,563	
Non-current liabilities			
Mortgage payable .....	2,443		
Notes payable (due after 2021) .....	<u>368</u>	2,811	
Current liabilities			
Notes payable (due in 2021) .....	981		
Accounts payable .....	<u>1,444</u>	2,425	
Total equity and liabilities .....		<u>¥21,799</u>	

(2) current ratio =  $11,190 / 2,425 = 4.61$

(3) Your assessment is that the company has sufficient current assets to cover its current liability. The company's liquidity is good.

(P2)

(a) Service Revenue .....	8,500
Income Summary .....	8,500

Income Summary .....	6,300
Salaries and Wages Expense .....	3,900
Depreciation Expense .....	350
Utilities Expense.....	400
Insurance Expense .....	600
Supplies Expense .....	1,050

Income Summary .....	2,200
Retained earnings .....	2,200

Retained Earnings.....	3,000
Dividends .....	3,000

(b)

HALL MARINE REPAIRS  
Retained Earnings Statement  
For the Month Ended April 30, 2020

Retained Earnings, April 1	£12,900
Add: Net Income	<u>2,200</u>
	15,100
Less: Dividends	<u>3,000</u>
Retained Earnings, April 30	<u>£12,100</u>

(P3)

DRYSDALE COMPANY  
Trial Balance  
June 30, 2020

	Debit	Credit
Cash [2,600 – 540 (2)] .....	£ 2,060	
Accounts Receivable [7,600 + 540 (2)] .....	8,140	
Supplies .....	600	
Equipment [8,300 + 700 (5)] .....	9,000	
Accounts Payable [9,766 – 477 (7)] .....		£9,289
Share Capital-Ordinary .....		1,952
Dividends [1,500 + 300 + 300 (3)] .....	2,100	
Service Revenue [15,200 + 279 (6)] .....		15,479
Salaries and Wages Expense [3,800 + 120 (4)] .....	3,920	
Maintenance and Repairs Expense [1,600 – 700 (5)] .....	900	
Totals .....	<u>£26,720</u>	<u>£26,720</u>

(P4)

(a) Journal Entry

Prepaid Rent .....	210,000
Cash .....	210,000

Adjusting Entry

Rent Expense .....	70,000
Prepaid Rent .....	70,000

(b) Journal Entry

Cash .....	840,000
Unearned Ticket Revenue .....	840,000

Adjusting Entry

Unearned Ticket Revenue .....	70,000
Ticket Revenue .....	70,000
(\$840,000 ÷ 12 = \$70,000)	

(c) Journal Entry

Cash .....	300,000
Note Payable .....	300,000

Adjusting Entry

Interest Expense .....	2,250
Interest Payable .....	2,250
(\$300,000 × .09 × 1 ÷ 12 = \$2,250)	

**(P5)**

(1)

a. Equipment .....	6,000
Accounts Payable .....	6,000
b. Accounts Receivable .....	5,000
Service Revenue .....	5,000
c. Accounts Payable .....	1,500
Cash .....	1,500
d. Cash .....	2,400
Accounts Receivable .....	2,400

(2)

a. Accounts Payable at June 30, 2020:

Beginning accounts payable	\$	0
Purchases on account		6,000
Payments on account		<u>(1,500)</u>
Ending accounts payable		<u>\$4,500</u>

b. Accounts Receivable at June 30, 2020:

Beginning accounts receivable	\$	0
Billed to customers		5,000
Collections from customers		<u>(2,400)</u>
Ending accounts receivable		<u>\$2,600</u>



(P6)

<u>Corporation Z</u> (£77,000)	
Beginning equity (£199,000 – £168,000)	£ 31,000
Additional investments	80,000
Net income for year (£187,000 – £175,000)	<u>12,000</u>
	123,000
Less dividends (£123,000 – £46,000)	<u>77,000</u>
Ending equity (£195,000 – £149,000)	<u>£ 46,000</u>
 <u>Corporation X</u> (£125,000)	
Beginning equity (£380,000 – £270,000)	£110,000
Additional investments (£260,000 – £110,000 – £25,000)	125,000
Net income for year (£195,000 – £170,000)	<u>25,000</u>
	260,000
Less dividends	<u>90,000</u>
Ending equity (£450,000 – £280,000)	<u>£170,000</u>
 <u>Corporation Y</u> (£162,000)	
Beginning equity (£150,000 – £105,000)	£ 45,000
Additional investments	79,000
Net income for year	<u>49,000</u>
[Revenues = <u>£162,000</u> (£113,000 + £49,000)]	173,000
Less dividends	<u>83,000</u>
Ending equity (£185,000 – £95,000)	<u>£ 90,000</u>