ACCT 2101
First Exam – Version 1 – Solution
Spring Semester, 2016

Name Solution with Grading Guideline **Section (12 or 1:30)** _____
(please print clearly)

Pledge:
On my honor, I have neither given nor received any unauthorized help on this exam.

____
(signed)

Instructions:

1. **You may not ask questions during the exam.** However, all notes you write to your instructor will be read and considered during the grading process.
2. You may use your ACCT 2101 Help Card during the exam. No other help is authorized.
3. You must use one of the authorized calculators – you may not use your own.
4. You must write legibly or your answers will not be graded.
5. **Do NOT pull this exam apart under any circumstances.**
6. Make sure you have **8** numbered pages including the cover sheet.
7. Good luck!

Point Allocation:

Problem 1: 7 items @ 2.5 points each =	17.5
Problem 2: 5 items for a total of	11.5
Problem 3: 9 items @ 4 points each =	36
Problem 4: 7 items @ 5 points each =	35
Extra Credit Question (below)	2
TOTAL AVAILABLE POINTS =	102 points

EXTRA CREDIT QUESTION: What is your favorite city in the world to visit?

Your choice!

2.5 points each

PROBLEM 1. Multiple-Choice Questions. THESE ARE ALL FROM THE END OF THE CHAPTER MATERIALS. THE SOLUTIONS WERE POSTED SEVERAL WEEKS AGO.

1. Which of the following is **true**?

   A. FASB creates SEC.
   B. GAAP creates FASB.
   C. SEC creates AICPA.
   D. FASB creates GAAP.

   Answer: D FASB issues accounting standards that determine GAAP.

2. Which of the following regarding retained earnings is **false**?

   A. Retained earnings is increased by net income and decreased by a net loss.
   B. Retained earnings is a component of stockholders' equity on the balance sheet.
   C. Retained earnings is an asset on the balance sheet.
   D. Retained earnings represents earnings not distributed to stockholders in the form of dividends.

   Answer: C Retained Earnings are part of Stockholders' Equity

3. Total liabilities on a balance sheet at the end of the year are \$150,000, retained earnings at the end of year is \$80,000, net income for the year is \$60,000, and common stock is \$60,000. What amount of total assets would be reported on the balance sheet at the end of the year?

   A. \$290,000
   B. \$270,000
   C. \$230,000
   D. \$350,000

   Answer: A Assets = Liabilities + Stockholders' Equity
   N = \$150,000 + \$80,000 + \$60,000 = \$290,000

PROBLEM 1 – continued.

4. When expenses exceed revenues in a given period,

   A. Retained earnings are not impacted.
   B. Retained earnings are decreased.
   C. Retained earnings are increased.
   D. One cannot determine the impact on retained earnings without additional information.

   Answer: B When expenses exceed revenues, there is a net loss. Net losses decrease Retained Earnings.

5. Which of the following is the entry to be recorded by a law firm when it receives a $2,000 retainer from a new client at the initial client meeting?

   A. Debit to Cash, $2,000; Credit to Legal Fees Revenue, $2,000.
   B. Debit to Accounts Receivable, $2,000; Credit to Legal Fees Revenue, $2,000.
   C. Debit to Unearned Revenue, $2,000; Credit to Legal Fees Revenue, $2,000.
   D. Debit to Cash, $2,000; Credit to Unearned Revenue, $2,000.
   E. Debit to Unearned Revenue, $2,000; Credit to Cash, $2,000.

   Answer: D When you receive amounts before you earn them, you must record an increase (credit) in an unearned revenue account.

6. Failure to make an adjusting entry to recognize accrued salaries payable would cause which of the following?

   A. An understatement of expenses, liabilities, and stockholders' equity.
   B. An understatement of expenses and liabilities and an overstatement of stockholders' equity.
   C. An overstatement of assets and stockholders' equity.
   D. An overstatement of assets and liabilities.

   Answer: B The entry would be:

Salaries Expense	XXX	
Salaries Payable		XXX

   Not recording this entry would understate Expenses and Liabilities. An understatement of Expenses would overstate Retained Earnings (Stockholders' Equity).

7. Which of the following would normally **not** be found in the *Notes to the Financial Statements?*

   A. Accounting rules applied to the company's financial statements.
   B. Additional detail supporting numbers reported in the company's financial statements.
   C. Relevant financial information not presented in the company's financial statements.
   D. All of the above would be found in the *Notes to the Financial Statements.*

   Answer: D   This topic is discussed in the handout, *Financial Statements: An Overview,* and in your textbook.

PROBLEM 2. Concept Questions.

a. What does the concept *continuity (going concern)* mean in accounting? Why does it matter for financial reporting? **Please use complete sentences.**

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From your course notes: *Continuity (going-concern):* unless strong evidence exists to the contrary, the accountant assumes that the entity will continue operations into the indefinite future.

We discussed this in class in the context of why most of the accounts on the Balance Sheet are reported at cost rather than at fair market value or liquidation value. Some of the examples that were raised in class were related to equipment or furniture (I used the front desk as my example) – we record these at cost and do not reduce their value based on outside market or liquidation values since we do not plan to sell or liquidate these operating assets until the end of their useful lives.

b. Identify one alternative name for the Statement of Cash Flows?

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There are **no alternative names** for the Statement of Cash Flows. This was mentioned several times since all of the other financial statements do have alternative names.

c. What is the definition of the term *DEBIT?* What is the definition of the term *CREDIT?*

DEBIT means place an entry on the **left side** of an account.

2.5 CREDIT means place an entry on the **right side** of an account.

These terms have no other meaning in accounting.

d. What are the **five** basic financial statements? Which one (if any) of these financial statements can be issued to the public without all of the others?

The five basic financial statements are (you can use any of the alternative names for them):

(1) Balance Sheet
(2) Income Statement
3 (3) Statement of Comprehensive Income
(4) Statement of Stockholders' Equity
(5) Statement of Cash Flows

As emphasized in class, you **cannot issue any one** of these financial statements without including **all** of these financial statements in your report.

e. In the first week of class, we discussed the concept that *PROFITS DO NOT EQUAL CASH FLOW.* Explain why that is true. **Please use complete sentences.**

In class, we looked at the Income Statement to determine the profit (or loss) of the company and we compared that number with the amount of cash provided from operations on the Statement of Cash Flows. In addition, you looked at both of these items on your first homework assignment so you could see that they were different.

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There are several reasons for these differences. The main reason is that we use accrual accounting where revenues are recognized when they are earned (not when the company collects the cash) and expenses are recognized when they are accrued (our liability) (not when they are paid in cash).

4 points each entry

PROBLEM 3. Recording Journal Entries. THIS IS PRACTICE PROBLEM 2-11 (WITH A FEW MINOR REVISIONS) THAT WAS SUGGESTED FOR YOUR REVIEW FOR THIS EXAM.

Ryan Terlecki organized a new Internet company, CapUniverse, Inc. The company specializes in baseball-type caps with logos printed on them. Ryan, who is never without a cap, believes that his target market is college and high school students. You have been hired to record the transactions occurring the first two weeks of operations:

(a) Issued 2,000 shares of common stock to investors for cash at $20 per share.
(b) Borrowed $60,000 from the bank (on a note payable) to provide additional funding to begin operations.
(c) Paid $1,500 for the current month's rent of a warehouse and another $1,500 for next month's rent. (You may record this as either one entry or two entries.)
(d) Paid $2,400 for a one-year fire insurance policy on the warehouse (recorded as a prepaid expense).
(e) Purchased furniture and fixtures for the warehouse for $15,000, paying $3,000 cash and the rest on account. (You may record this as either one entry or two entries.)
(f) Purchased baseball caps with a variety of college logos for $2,800 cash. These caps are inventory to sell online.
(g) Sold caps for a total of $1,700. Half of these sales were for cash and the other half were on account. The cost of the caps sold was $900.
(h) Made full payment for the furniture and fixtures purchased on account in (e).
(i) Received $210 from a customer on account.

REQUIRED: Prepare journal entries (in good form) for the transactions above. Use the item letter to identify each transaction. Continue your solution on the next page.

Item	*Debit Account*	*Credit Account*	*Debit*	*Credit*
(a)	Cash		40,000	
		Common Stock		40,000
	(2,000 shares @ $20 = $40,000)			
(b)	Cash		60,000	
		Note Payable		60,000

PROBLEM 3 – continued.

Item	*Debit Account*	*Credit Account*	*Debit*	*Credit*
(c)	Rent Expense		1,500	
	Prepaid Rent		1,500	
		Cash		3,000
(d)	Prepaid Insurance		2,400	
		Cash		2,400
(e)	Furniture & Fixtures		15,000	
		Cash		3,000
		Accounts Payable		12,000
(f)	Inventory		2,800	
		Cash		2,800
(g)	Cash		850	
	Accounts Receivable		850	
		Sales Revenue		1,700
	(To record the sale.)			
	Cost of Goods Sold		900	
		Inventory		900
	(To record the inventory reduction.)			
(h)	Accounts Payable		12,000	
		Cash		12,000
(i)	Cash		210	
		Accounts Receivable		210

5 points each entry

PROBLEM 4. Recording adjusting entries. THIS IS PRACTICE PROBLEM 3-2 (WITH A FEW MINOR REVISIONS) THAT WAS SUGGESTED FOR YOUR REVIEW FOR THIS EXAM.

Martin Towing Company is at the end of its accounting year, December 31, 2015. The following data that must be considered were developed from the company's records and related documents:

(a) On January 1, 2015, the company purchased a new hauling van at a cash cost of $28,000. The van has a residual value of $7,000 and the company expects to use the van for five years. The straight-line depreciation has not been recorded for 2015.

(b) During 2015, office supplies amounting to $1,500 were purchased for cash and debited to the Supplies account. The company began the year with no Supplies on hand. At the end of 2015, the count of supplies remaining on hand was $150.

(c) On December 31, 2015, Lanie's Garage completed repairs on one of the company's trucks at a cost of $2,600. This amount is not yet recorded by Martin Towing and by agreement will be paid in January 2016.

(d) On December 31, 2015, property taxes on land owned during 2015 were estimated at $1,800. These property taxes have not been recorded and will be paid in 2016 when billed.

(e) On December 31, 2015, the company completed towing service for an out-of-state company for $4,000 payable by the customer within 30 days. No cash has been collected, and no journal entry has yet been made for this transaction.

(f) On July 1, 2015, a three-year insurance premium on equipment in the amount of $900 was paid and debited in full to Prepaid Insurance on that date. Coverage began on July 1, 2015.

(g) On October 1, 2015, the company borrowed $13,000 from the local bank on a one-year note payable. As of December 31, 2015, the company has incurred $400 in interest expense, but no interest has yet been recorded.

REQUIRED: Prepare the adjusting journal entries (in good form) required based on the information above. Use the item letter to identify each transaction. Continue your solution on the next page.

Item	*Debit Account*	*Credit Account*	*Debit*	*Credit*
(a)	Depreciation Expense		4,200	
		Accumulated Depreciation – Van		4,200

[(($28,000 - $7,000) ÷ 5 years) = $4,200 Depreciation per year]

PROBLEM 4 – continued.

Item	*Debit Account*	*Credit Account*	*Debit*	*Credit*
(b)	Supplies Expense		1,350	
		Supplies		1,350
	(($1,500 - $150) = Supplies used)			
(c)	Repairs Expense		2,600	
		Accounts Payable		2,600
(d)	Property Tax Expense		1,800	
		Property Tax Payable		1,800
(e)	Accounts Receivable		4,000	
		Service Revenue		4,000
(f)	Insurance Expense		150	
		Prepaid Insurance		150
	(($900 ÷ 36 months) * 6 months = $150)			
(g)	Interest Expense		400	
		Interest Payable		400