

ACCT 2101
Exam 1 – SOLUTION – VERSION 2
Fall Semester, 2011

Name Solution Section (12 or 1:30) _____
(please print clearly)

Pledge:

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

(signed)

Instructions:

1. **You may not ask questions during the exam.** However, all notes you write to the instructor will be read and considered during the grading process.
2. You may use your ACCT 2101 Course Binder during the exam, but all papers must be secured in the binder rings. 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 7 numbered pages including the cover sheet.
7. Good luck!

Space = Version 2
→ **Point Allocation:**

Problem 1: 10 items @ 0.1 each =	1.0
Problem 2: 4 items @ 0.2 each =	0.8
Problem 3: 7 items @ 1.0 each =	7.0
Problem 4: 12 items @ 0.1 each =	<u>1.2</u>
TOTAL AVAILABLE POINTS =	<u>10.0</u> points

Each item a-j
is 0.1 point.

If they only get
it partially correct,
deduct .05 point.

PROBLEM 1. Questions from the Course Syllabus.

- a. Identify five violations of classroom etiquette that will require you to leave the classroom.

- (1) Talking in class.
- (2) Sleeping or putting your head down during class.
- (3) Use of electronic devices during class.
- (4) Working on something other than ACCT 2101 during class.
- (5) Letting your cell phone ring.

- b. What is the (1) day, (2) date, and (3) time of your final exam?

12:00 class: Wednesday, December 14, at 11:30 a.m.

1:30 class: Friday, December 16, at 2:50 p.m.

- c. If you miss a class, how do you obtain hard copies of the handouts that were distributed in your absence?

In the Handouts Box next to the file bins.

- d. What is the procedure (three steps) to request a re-grade of a quiz or other graded item?

- (1) Jot a note on the item to be reviewed.
- (2) Attach a copy of the solution for that part.
- (3) Submit the item to your professor.

- e. How many class exercises will be dropped in computing your class exercise average?

Two (2) classes will be dropped in computing your class exercise average.

- f. What is the course policy regarding makeup exams? Why is your lowest exam grade dropped in computing your exam average? Please answer both questions.

There are NO makeup exams allowed unless required by the Registrar.

The lowest exam grade is dropped to allow for absences on the day of the exam that are beyond your control.

- g. Where will you be able to check that your grades have been recorded correctly? Please provide a very specific answer.

Grades will be posted in the "Post'Em" section of T-Square.

- h. How often do you need to have your name tent in front of you?

You must have your name tent in front of you for every class (including exams).

- i. Where will you be able to find the solutions to the exams you take (available on the day the graded exams are returned to your file folder)?

Solutions to quizzes are posted in the "Current Quiz Solutions" folder on T-Square.

- j. What content will be included on the final exam?

The final exam is a comprehensive review of the entire course.

PROBLEM 2. Concept Questions. Please use COMPLETE SENTENCES (subject and predicate) to answer the following questions and keep your answers short.

- a. What is a 10-K?

A 10-K is the annual report filed with the Securities & Exchange Commission (SEC) by publicly-traded companies.

} 0.2

- b. What are three alternative names for the income statement?

Alternative names for the income statement that we identified in class were statement of earnings, statement of operations, and statement of profit & loss.

} 0.2

- c. Define the following terms:

(1) Solvency is the ability to pay debts as they become due.

(2) Profitability is the ability to generate income.

} 0.2

- d. What is periodicity?

Periodicity is the subdividing of an entity's life into time periods for reporting economic activities. (This concept is the reason for accrual accounting.)

} 0.2

For each item a-g, the point value is 1.0. If you can find a way to do partial credit, please do.

PROBLEM 3. Adjusting Entries and Related Concepts.

The Turner Company's annual accounting year ends on December 31. It is December 31, 2011, and all of the 2011 entries have been made except for the *Other Items* below.

Required:

1. Record the adjusting entry required for each item. (Be sure to use good form for your adjusting entries so they can be interpreted.) No explanations are necessary.
2. For each of the adjusting entries you make, what would be the problem if the company did not make the adjustment? That is, what kind of account (assets, liabilities, stockholders' equity, revenues, or expenses) would be overstated or understated? Remember: There are two effects for each entry.

Other Items:

- a. On September 1, 2011, Turner collected six months' rent of \$12,600 on storage space. At that date, Turner debited Cash and credited Unearned Rent Revenue.

Unearned Rent Revenue	8,400	
Rent Revenue		8,400

} 0.5

$$(\$12,600 / 6) = \$2,100 \text{ per month} \times 4 = \$8,400$$

- Liabilities would be overstated.
- Revenues would be understated.

} 0.5

- b. On October 1, 2011, the company borrowed \$18,000 from a local bank. The interest accrued by December 31 is \$3,600.

Interest Expense	3,600	
Interest Payable		3,600

- Expenses would be understated.
- Liabilities would be understated.

- c. Depreciation is to be computed on a straight-line basis. The company purchased a service truck on July 1, 2011, at a cost of \$22,000. The estimated salvage value is \$2,000, and the estimated useful life is 5 years.

Depreciation Expense	2,000	
Accumulated Depreciation-Truck		2,000

$$(\$22,000 - \$2,000) / 5 \text{ years} = \$4,000 \times 6/12 = \$2,000$$

- Expenses would be understated.
- Assets would be overstated.

PROBLEM 3 – continued.

- d. Cash of \$6,000 was collected on November 1, 2011, for services to be rendered evenly over the next 12 months. Unearned Service Revenue was credited when the cash was received.

Unearned Service Revenue	1,000	
Service Revenue		1,000

$(\$6,000 / 12 \text{ months} = \$500 \times 2 = 1,000)$

- Liabilities would be overstated.
- Revenues would be understated.

- e. On November 1, 2011, Turner paid a one-year premium for property insurance in the amount of \$18,000. The coverage started on that date. Cash was credited and Prepaid Insurance was debited at the time of the payment.

Insurance Expense	3,000	
Prepaid Insurance		3,000

$(\$18,000 / 12 \text{ months} = \$1,500 \times 2 = \$3,000)$

- Expenses would be understated.
- Assets would be overstated.

- f. The company earned service revenue of \$7,000 on a special job that was completed December 29, 2011. This amount has not been billed to the customer yet.

Accounts Receivable	7,000	
Service Revenue		7,000

- Assets would be understated.
- Revenues would be understated.

- g. At December 31, 2011, wages earned by employees totaled \$8,500. The employees will be paid on the next payroll date, January 15, 2012.

Wages Expense	8,500	
Wages Payable		8,500

- Expenses would be understated.
- Liabilities would be understated.

PROBLEM 4.

Hanson Turner started his own consulting firm, HT Company, on June 1, 2011. The Adjusted Trial Balance at June 30, 2011, is as follows:

	<i>Debit</i>	<i>Credit</i>
Cash	\$ 8,850	
Accounts Receivable	7,000	
Prepaid Insurance	1,200	
Supplies	5,100	
Office Equipment	18,500	
Accumulated Depreciation—Office Equipment		1,250
Accounts Payable		4,500
Utilities Payable		160
Salaries Payable		2,500
Unearned Service Revenue		4,000
Note Payable (due 10/1/2014)		3,750
Common Stock		9,000
Dividends	1,000	
Service Revenue		29,000
Interest Revenue		5,500
Salaries Expense	5,500	
Rent Expense	2,000	
Depreciation Expense	2,250	
Insurance Expense	4,200	
Utilities Expense	2,160	
Supplies Expense	1,900	
Totals	<u>\$59,660</u>	<u>\$59,660</u>

PROBLEM 4 REQUIRED:

Prepare an Income Statement and Statement of Retained Earnings for the HT Company for the month ended June 30, 2011. Your solution should appear on the next page.

**HT Company
Income Statement
June 30, 2011**

*Each item with
a check is worth
0.1.*

Revenues:

Service Revenue	\$ 29,000 ✓	
Interest Revenue	<u>5,500</u> ✓	
Total Revenues		\$ 34,500

Expenses:

Salaries Expense	\$ 5,500 ✓	
Rent Expense	2,000 ✓	
Depreciation Expense	2,250 ✓	
Insurance Expense	4,200 ✓	
Utilities Expense	2,160 ✓	
Supplies Expense	<u>1,900</u> ✓	
Total Expenses		<u>18,010</u>

Net Income \$ 16,490 ✓

**HT Company
Statement of Retained Earnings
June 30, 2011**

Retained Earnings, June 1, 2011	\$ -0-	
Net Income	<u>16,490</u> ✓	
Total	\$ 16,490	
Less: Dividends	<u>1,000</u> ✓	
Retained Earnings, June 30, 2011	\$ <u>15,490</u> ✓	