

ACCT 2101
First Exam – VERSION 1 – SOLUTION
Spring Semester, 2015

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

Pledge:  Version 1 = Plain Font

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 6 numbered pages (7 pages for the Solution) including the cover sheet.
7. Good luck!

Point Allocation:

Problem 1: 5 items @ 4 points each =	20
Problem 2: 11 items @ 4 points each =	44
Problem 3: 6 items @ 6 points each =	36
Extra Credit Question (below)	<u>3</u>
TOTAL AVAILABLE POINTS =	<u>103</u> points

EXTRA CREDIT QUESTION: What is your favorite musical artist or group?

Your choice

NOTE: 1 point deduction for each answer that is not in complete sentences.

PROBLEM 1. Concept Questions. Please use COMPLETE SENTENCES (subject and predicate) to answer the following questions and keep your answers short.

- a. What is the IASB? What is their goal?

The IASB is the International Accounting Standards Board. They are the rule-making body for all of the countries that have adopted international standards.

} 2 pts.

The goal of the IASB is to have worldwide acceptance of a set of international financial reporting standards.

} 2 pts

- b. What does an *unqualified auditor's report* indicate? Why does that matter?

An unqualified auditor's report indicates that the financial statements present fairly the financial position, the results of operations, and the changes in the cash flows for the company. This report indicates that there are no restrictions (qualifications) on the ability to use the financial statements. This matters so that investors, creditors, and other users of financial statements know that they can rely on the financial statements for their decision making.

} 2 pts

} 2 pts

- c. What is a *proxy statement*? Identify two items you would find in this document.

A proxy statement is the formal request from the company to allow the Board of Directors to vote on behalf of the vast majority of shareholders who do not attend shareholder meetings.

} 2 pts

There are many items included in the proxy statement – see page 15 of the handout. The three items that were included on the Class Exercise were (1) information on voting procedures, (2) information on executive compensation, and (3) information on the breakdown of audit and non-audit fees paid to the audit firm.

} 2 pts

- d. What is the definition of the term *DEBIT*? What is the definition of the term *CREDIT*?

DEBIT means make an entry on the left side of an account (we used T-accounts to represent this).

} 2 pts

CREDIT means make an entry on the right side of an account.

} 2 pts

- e. What is a *private* company? What is a *public* company? Name one public company you have reviewed (either in your homework or in the binder).

A private company is one that does not sell shares of stock (ownership) to outside parties.

A public company is one that does sell shares of stock to outside parties through organized stock exchanges.

There were eight public companies identified in the homework assignment. We reviewed Facebook in class. In addition, there are four more public companies in your binder.

Only need to provide one company name.

} 3 pts

} 1 pt

PROBLEM 2.

Turner Laundry Company had the following transactions in December 2014:

- Dec. 1 Issued capital stock for cash, \$150,000.
- 3 Borrowed \$40,000 from the bank on a note.
- 4 Purchased cleaning equipment for \$25,000 cash.
- 6 Performed services for customers who promised to pay later, \$16,000.
- 7 Paid **this month's** rent on a building, \$2,800.
- 10 Collections were made for services performed previously, \$3,200.
- 14 Supplies were purchased on account **for use this month**, \$3,000.
- 17 A bill for \$400 was received for utilities **used this month**.
- 25 Laundry services were performed for customers who paid immediately, \$22,000.
- 31 Paid employee salaries, \$6,000.
- 31 Paid cash dividend, \$2,000.

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

COMPLETE SOLUTION IS ON THE NEXT PAGE.

PROBLEM 2 SOLUTION. (Explanations not required.)

4 points for each entry with partial credit available. *

Dec. 1	Cash	150,000	
	Capital Stock		150,000
	Issued capital stock for cash.		
3	Cash	40,000	
	Notes Payable		40,000
	Borrowed money from bank on note.		
4	Equipment	25,000	
	Cash		25,000
	Paid cash for cleaning equipment.		
6	Accounts Receivable	16,000	
	Service Revenue		16,000
	Performed services on account.		
7	Rent Expense	2,800	
	Cash		2,800
	Paid rent for first month.		
10	Cash	3,200	
	Accounts Receivable		3,200
	Collected some accounts receivable.		
14	Supplies Expense	3,000	
	Accounts Payable		3,000
	Purchased supplies on account.		
17	Utilities Expense	400	
	Accounts Payable		400
	Received bill for utilities.		
25	Cash	22,000	
	Service Revenue		22,000
	Performed services for cash.		
31	Salaries Expense	6,000	
	Cash		6,000
	Paid salaries for August.		
31	Dividends (or Retained Earnings)	2,000	
	Cash		2,000
	Paid cash dividend.		

* Each account name is worth 1 point and each number is worth 1 point.

PROBLEM 3.

The following is the **Unadjusted** Trial Balance for the Green Company. This company was started on July 1, 2014.

Green Company
Unadjusted Trial Balance
December 31, 2014

	Debits	Credits
Cash	\$53,300	
Accounts Receivable	15,500	
Inventory	7,000	
Office Supplies on Hand	2,000	
Prepaid Rent	18,000	
Prepaid Insurance	1,200	
Office Equipment	6,000	
Accounts Payable		\$ 11,000
Unearned Service Revenue		3,000
Notes Payable		15,000
Capital Stock		20,000
Dividends	2,000	
Service Revenue		66,000
Sales Revenue		9,000
Cost of Goods Sold	3,000	
Rent Expense	1,500	
Courier Expense	2,500	
Salaries Expense	12,000	
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TOTAL	<u>\$124,000</u>	<u>\$124,000</u>

Additional Information as of December 31, 2014:

- (a) An inventory count of the actual office supplies on hand at December 31 totaled \$1,200.
- (b) The office equipment was purchased in July and has an estimated useful life of six years and an estimated salvage value of \$2,000. The company uses the straight-line method of depreciation.
- (c) Of the Unearned Service Revenue recorded, 60% had been earned by December 31.
- (d) The interest earned on Green Company's savings accounts from July 1 through December 31 was \$1,700. According to the bank statement, this amount was **not** deposited into the savings account on December 31.
- (e) Accounting services performed by Green Company but not yet billed to clients amount to \$3,500.
- (f) The interest incurred (but not yet paid) on the note payable to the bank was \$1,300 for July 2 through December 31.

NOTE: You must use the same account names as the company uses.

6 points for each entry with partial credit available.*

PROBLEM 3 -- REQUIRED:

Prepare the adjusting journal entries required based on the additional information above.

Item	Debit Account	Credit Account	Debit	Credit
(a)	Office Supplies Expense		800	
		Office Supplies on Hand		800
	(\$2,000 - \$1,200 = \$800 office supplies used)			
(b)	Depreciation Expense		333	
		Accumulated Depreciation – Office Equip		333
	((\$6,000 - \$2,000) / 6 years = \$666.66 * 6/12 = \$333.33)			
(c)	Unearned Service Revenue		1,800	
		Service Revenue		1,800
	(\$3,000 * 60% = \$1,800 earned)			
(d)	Interest Receivable		1,700	
		Interest Revenue		1,700
(e)	Accounts Receivable		3,500	
		Service Revenue		3,500
(f)	Interest Expense		1,300	
		Interest Payable		1,300

* Each account name is worth 2 points and each number is worth 1 point.