ACCT 2101 Financial Accounting

Sample Exam 2

Part I: Multiple Choice Answers (**Please write your multiple choice answers here!**)

1. \_\_\_\_\_ 6. \_\_\_\_\_
2. \_\_\_\_\_ 7. \_\_\_\_\_
3. \_\_\_\_\_ 8. \_\_\_\_\_
4. \_\_\_\_\_ 9. \_\_\_\_\_
5. \_\_\_\_\_ 10. \_\_\_\_\_

I. Multiple choices

Choose the **one** best answer for each of the following questions. **Please write your answers in the space provided on the cover page.**

1. If expenses are paid in cash, then

a. liabilities will increase.

b. assets will decrease.

c. stockholders’ equity will increase.

d. liabilities will decrease.

2. If a company buys a $700 machine on credit, this transaction will affect the:

a. income statement and retained earnings statement only.

b. income statement only.

c. income statement, retained earnings statement, and balance sheet.

d. balance sheet only.

3. A credit is **not** the normal balance for which account listed below?

a. Common Stock account

b. Revenue account

c. Liability account

1. Dividends account

4. Which pair of the listed accounts follows the rules of debits and credits in relation to increases and decreases in the same manner?

a. Salary expense and notes payable

b. Common stock and rent expense

c. Prepaid rent and advertising expense

d. Service revenue and equipment

5. During January 2007, Handy Services Inc. paid a cash dividend of $2,000. This transaction

a. reduces stockholders' equity by $2,000.

b. increases stockholders' equity by $2,000.

c. reduces net income by $2,000.

d. increases expenses by $2,000

6. A trial balance will **not** balance if

a. a correcting journal entry is posted twice.

b. a $50 cash dividend is debited to dividends for $500 and credit to cash for $50.

c. a $300 payment on accounts payable is debited to accounts payable for $30 and credited to cash for $30.

d. a transaction is not posted at all.

7. Javier’s Tune-Up Shop follows the revenue recognition principle. Javier services a car on August 31. The customer picks up the vehicle on September 1 and mails the payment to Javier on September 5. Javier receives the check in the mail on September 6. When should Javier show that the revenue was earned?

a. August 31

b. August 1

c. September 5

d. September 6

8. An architecture firm earned $2,000 for architecture services provided with the fee to be paid in the future. No entry was made at the time the service was provided. If the fee has not been paid by the end of the accounting period and no adjusting entry is made, this would cause

a. revenues to be overstated.

b. net income to be overstated.

c. liabilities to be understated.

d. revenues to be understated.

9. Which of the following would **not** result in unearned revenue?

a. Rent collected in advance from tenants

b. Services performed on account

c. Sale of season tickets to football games

d. Sale of two-year magazine subscriptions

10. The closing entry process consists of closing

a. all asset and liability accounts.

b. Retained Earnings account.

c. all permanent accounts.

d. all temporary accounts.

II. Recording Accounting Transactions

The ledger accounts given below, with an identification number for each, are used by Pender Company. Pender Company closes books monthly.

**Required:** Indicate the appropriate entries for July by placing the appropriate identification number(s) in the debit and credit columns provided.

1. Cash 7. Salaries Payable 13. Service Revenue

2. Accounts Receivable 8. Accounts Payable 14. Equipment Expense

3. Supplies 9. Unearned Revenue 15. Advertising Expense

4. Prepaid Expenses 10. Notes Payable 16. Supplies Expense

5. Short-term Investments 11. Common Stock 17. Rent Expense

6. Equipment 12. Dividends 18. Salaries Expense

Account(s) Account(s)

Date Transaction Debited Credited

July 1 Stockholders invested $20,000 in the business.

July 4 Paid $1,500 for supplies purchased on account in May.

July 5 Equipment was purchased at a cost of $6,000; a three-month, 6% note was signed for this amount.

July 8 Received $3,000 from customers for services rendered on the same day.

July 14 Received a $500 bill from the Daily News for advertisements run this past week.

July 19 Paid $2,000 in cash to Carson Company for July rent.

July 25 Additional office supplies were purchased on account at a cost of $1,000 from Supply Company. These supplies will be used during August.

July 26 Paid the Daily News $400 for an advertisement that will run the first week in August.

July 27 Received $5,000 from customers for services to be rendered early in August.

July 28 Billed customers $6,000 for services rendered but not collected during July.

III. Adjusting Entries and Financial Statements

Miller Company opened for business on August 1, 2006. On August 31, 2006, the company prepared a preliminary trial balance as shown below.

|  |  |  |
| --- | --- | --- |
| Miller Company  Trial balance – August 31, 2006 | | |
|  | Debit | Credit |
| Cash | $3,750 |  |
| Accounts receivable | 1,500 |  |
| Prepaid insurance | 1,800 |  |
| Supplies | 1,250 |  |
| Office furniture | 6,000 |  |
| Accounts payable |  | 1,750 |
| Unearned revenue |  | 2,000 |
| Common stock |  | 9,550 |
| Service revenue |  | 3,750 |
| Salaries expense | 2,000 |  |
| Rent expense | 750 |  |

Miller Company reviewed its transactions and discovered the following additional data:

1. $1,000 of supplies were unused on August 31.
2. The insurance policy was purchased on August 1 for 12 months.
3. $500 of the balance in the Unearned Revenue account remains unearned at the end of the month.
4. August 31 is a Thursday and employees are paid every week on Monday. Miller Company had two employees that are paid $120 per person per working day. The two employees work five days a week (pay period is Tuesday through Monday).
5. The office furniture has a 5-year life with no salvage value.
6. Performed service for a customer, and sent out a bill of $700.

**Required:**

(a) Assume that Miller Company prepares adjusting entries monthly. Prepare the adjusting entries for the month of August.

(b) Prepare the income statement for August 2006.

Key to Sample Test 2

I. Multiple choices

1 B 2 D 3 D 4 C 5 A 6 B 7 A 8 D 9 B 10 D

II. Recording Accounting Transactions

|  |  |  |
| --- | --- | --- |
| DATE | DEBIT | CREDIT |
| JULY 1 | 1 | 11 |
| JULY 4 | 8 | 1 |
| JULY 5 | 6 | 10 |
| JULY 8 | 1 | 13 |
| JULY 14 | 15 | 8 |
| JULY 19 | 17 | 1 |
| JULY 25 | 3 | 8 |
| JULY 26 | 4 | 1 |
| JULY 27 | 1 | 9 |
| JULY 28 | 2 | 13 |

III. Adjusting Entries and Financial Statements

(a) Adjusting entries

|  |  |
| --- | --- |
| 1.  Supplies expense 250  Supplies 250 | 2.  Insurance expense 150  Prepaid insurance 150 |
| 3.  Unearned revenue 1500  Service revenue 1500 | 4.  Salaries expense 720  Salaries payable 720 |
| 5.  Depreciation expense 100  Accumulated depreciation 100 | 6.  Accounts receivable 700  Service revenue 700 |

(b) Income statement

Miller Company

Income Statement

For August 2006

|  |  |
| --- | --- |
| **Revenues**  Service revenue | 5950 |
| **Expenses** |  |
| Salaries expense | 2720 |
| Rent expense | 750 |
| Supplies expense | 250 |
| Insurance expense | 150 |
| Depreciation expense | 100 3970 |
| **Net income** | 1980 |