



Financial Accounting and Reporting
Midterm Examination

Name: _____

Course&Section: _____

GENERAL INSTRUCTION:

- Using cell phones is **prohibited**. Only, **CALCULATORS** are allowed to be used for computation.
- Caught cheating during the exam will be deducted **20 points**.
- STRICTLY NO ERASURES, ERASURES ARE CONSIDERED WRONG.**

Test I. Modified **TRUE OR FALSE**. Base on the underlined words. Write **TRUE** if the statement is correct and **WRITE THE CORRECT ANSWER** if the statement is wrong.

1. Accounting is a service entity that provides quantitative information, primarily financial in nature.
2. When a company hires an employee, there is no journal entry to be recorded.
3. A partnership is owned by two partners only.
4. A sole proprietor business must be owned by 2 to 5 proprietors.
5. Both sides of the accounting equation must be sometimes equal.
6. The Entity Concept states that a company's transactions should be accounted for separately from other entities.
7. An owner can invest cash or assets of value in the business.
8. Auditing is a branch of accounting that deals with the recording of business transactions and preparation of financial statements.
9. Assets are things of value owned by the business.
10. Withdrawal represents the owner's investment, or equity, in a business.
11. The Objectivity Principle ensures that accounting records are based on reliable information to avoid disputes.
12. The Revenue Recognition Principle dictates that revenue should be recognized when payment is received, regardless of when goods or services are delivered.
13. A decrease in an asset is recorded by a debit.
14. A credit to an asset means that an account has been increased.
15. Another name for the journal is the book of original entry.
16. An increase in revenue is recorded with a debit.
17. Accounts receivable is considered an Non - current asset.
18. The land is considered as Property, Plant, and Equipment.
19. An increase in liability is recorded as a debit.
20. When the owner of a business entity withdraws cash or other assets it is directly deducted from the capital account.
21. Liabilities are something that the company/entity owed.

- _____ 22. A corporation can have more than 50 stockholders.
- _____ 23. In a sole proprietorship, there are multiple owner's equity accounts to represent each partner's interest.
- _____ 24. Accounts receivable is considered an asset.
- _____ 25. Operating activities include research and development, design, purchasing, and production.
- _____ 26. When a company hires an employee, there is no journal entry to be recorded.
- _____ 27. A decrease in owner's equity is recorded with a credit.
- _____ 28. Every business transaction affects a minimum of two accounts.
- _____ 29. A debit entry to an expense account will increase it.
- _____ 30. Another word for liability is debt.
- _____ 31. Salaries payable is a type of expense.
- _____ 32. Income increases owner's equity and is recorded by a debit.
- _____ 33. The account balance is the difference between total debits and total credits in an account.
- _____ 34. Normally income accounts have credit balance.
- _____ 35. Unearned revenues are classified as assets on the balance sheet.

Test II. FILL IN THE BLANK.

1-15. Rules of Debit and Credit. The account type determines how increases or decreases in it are recorded. Determine whether the word **debit** or **credit** is appropriate for each statement.

Asset accounts normally have _____ (1) balances. An increase in asset is recorded as a _____ (2) while a decrease in asset is recorded as a _____ (3).

Liability accounts normally have _____ (4) balances. An increase in liability is recorded by a _____ (5) and a decrease is entered as a _____ (6).

The **owner's capital** account normally has a _____ (7) balance. This account increases on the _____ (8) side and decreases on the _____ (9) side.

Expenses accounts normally have _____ (10) balances. This account increases on the _____ (11) side and decreases on the _____ (12) side.

Income accounts normally have a _____ (13) balance. This account increases on the _____ (14) side and decreases on the _____ (15) side.

16-40. Write the correct answer in the space provided.

- _____ 16. It is the art of recording, classifying, and summarizing transactions that are, in part at least, of a financial character.
- _____ 17. These are tangible assets that are held by enterprise for use in the production, or supply of goods or service.
- _____ 18. This concept allows an entity's life to be subdivided into equal time periods for reporting purposes.
- _____ 19. It is a device used to separate the balances of each account.
- _____ 20. This branch of accounting is responsible for the preparation and consideration of tax returns.
- _____ 21. This branch of accounting provides information for managerial planning and control by adapting cost data for decision-making.
- _____ 22. It is the expenditures of the business.
- _____ 23. It is the residual interest of the entity after deducting all liabilities.
- _____ 24. It is the normal balance of an Asset account.
- _____ 25. It is the normal balance of Revenue account.
- _____ 26. It is the end product of the accounting cycle.
- _____ 27. It is the revenue earned as a result of sale of merchandise.
- _____ 28. These are expenses paid for by the business in advance.
- _____ 29. This account represents the reverse relationship of the accounts receivable.
- _____ 30. These are short-term highly liquid investments that are readily convertible to known amount of cash.
- _____ 31. This is any medium of exchange that the bank will accept for deposit at face value.
- _____ 32. It is a contra asset account that contains the sum of the periodic depreciation charges.
- _____ 33. These are expenses that the business' incurred but hasn't yet paid.
- _____ 34. These are portion of mortgage notes, bonds and other long term indebtedness which are to be paid within one year from the balance sheet date.
- _____ 35. The act of removing funds from a business account or using business resources for personal or non-business purposes.
- _____ 36. Revenues earned by performing services for customer or client.
- _____ 37. An expense which includes all the payments as a result of an employer-employee relationship such as salaries or wages, 13th month pay, cost of living allowances and other related benefits.
- _____ 38. The portion of the cost of tangible asset (ex. Building and Equipment) allocated or charged as expense during an accounting period.
- _____ 39. The amount of receivable estimated to be doubtful of collection and charge as expense during an accounting period.
- _____ 40. Expense related to the cost that the company incurs during a period to avail of the services provided by the public utility companies in the place of operation of the company.

Test III. MULTIPLE CHOICES. Write the letter of the correct answer in the space provided.

- _____ 1. What is the primary function of accounting?
 - a. To design financial products
 - b. To provide quantitative information
 - c. To create marketing strategies
 - d. To hire employees
- _____ 2. Which of the following equation is the fundamental accounting equation?
 - a. Asset – Liabilities = Owner's Equity
 - b. Asset + Owner's Equity = Liabilities
 - c. Asset = Liabilities + Owner's Equity
 - d. Asset – Owner's Equity = Liabilities
- _____ 3. Amounts owed by a business are referred to as
 - a. Assets
 - b. Liabilities
 - c. Expenses
 - d. Owner's Equity
- _____ 4. Amounts owned by the business are referred to as
 - a. Assets
 - b. Owner's Equity
 - c. Liabilities
 - d. Revenue
- _____ 5. When an owner deposits cash in an account in the name of the business, it is an increase to
 - a. Cash and Accounts Receivable
 - b. Cash and Capital
 - c. Cash and Withdrawals
 - d. Cash and Accounts Payable
- _____ 6. Purchase of supplies for cash will
 - a. Increase Supplies and Decrease Cash
 - b. Increase Supplies Expense and decrease Cash
 - c. Decrease Cash and increase Accounts Payable
 - d. Decrease Cash and Increase Capital
- _____ 7. Which of the following is NOT an activity within the fundamental business model?
 - a. Investor provides capital
 - b. Operating cost management
 - c. Product assembly
 - d. Employee training programs
- _____ 8. Expenses can be defined as
 - a. Increase in owner's Equity
 - b. Decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurred of liabilities that result in a decrease in equity.
 - c. Decrease in owner's equity
 - d. Inflows of assets from delivering or producing goods or rendering services.
- _____ 9. Which type of business involves selling people's time?
 - a. Manufacturing
 - b. Services
 - c. Raw Materials

- d. Financial
- _____ 10 What is a key disadvantage of a sole proprietorship?
- Profit is shared among many owners
 - The owner absorbs all losses and is solely responsible for debts
 - It requires a large number of employees
 - It is heavily taxed by the government
- _____ 11. When the owner withdraws cash or other assets, the withdrawal account is
- Debited
 - Debited and Credited
 - Credited
 - Not affected
- _____ 12. Which of the following is a liability of a business?
- A building owned by the firm
 - Money that the firm has borrowed and has not yet repaid.
 - Cash in the firm's safe
 - Money owed to the firm by its debtors.
- _____ 13. The company collected in full an account receivable. Considering this transaction alone,
- Total assets will remain the same
 - Total assets will decrease
 - Total assets will increase
 - Equity will increase
- _____ 14. When the rent for the business is paid with a check,
- Cash is decreased and rent expense is decreased
 - Cash is decreased and rent income is increased
 - Cash is decreased and rent expense is increased
 - Cash is increased and rent expense is decreased
- _____ 15. The issuance of a note by an entity for services received should be recorded as
- An unearned revenue
 - A prepaid expense
 - Notes payable
 - An accounts receivable
- _____ 16. Which of the following is an intangible asset?
- Trademarks
 - Patents
 - Copyrights
 - All of the above
- _____ 17. The expectation of payment from a customer for goods sold is
- Prepaid expense
 - Accounts receivable
 - Notes payable
 - Notes receivable
- _____ 18. When an entity received cash for services performed,
- An asset is decreased
 - The owner's equity is decreased
 - The owner's equity is increased
 - Total assets remain unchanged
- _____ 19. When an entity pays employees for their services, the effect is an increase in

- a. Expenses
 - b. Income
 - c. Assets
 - d. Liabilities
- _____ 20. Which of the following is a form of revenue?
- a. A check paying a mortgage
 - b. Credit sales to charge customers
 - c. A credit Purchase invoice
 - d. A check paying utilities
- _____ 21. All of the following affects owner's equity except,
- a. Original investments
 - b. Additional investment
 - c. Payment of liability
 - d. Withdrawal by the owner
- _____ 22. A credit entry decreases the balance of
- a. Owner's equity
 - b. Income
 - c. Assets
 - d. Liabilities
- _____ 23. The purchase of a service vehicle on account
- a. Increases asset and increase a liability
 - b. Decreases equity
 - c. Increases asset and decrease liability
 - d. Decreases asset and decrease liability
- _____ 24. Which of the following is an asset of the firm?
- a. The capital of the business.
 - b. Computer equipment owned by the business.
 - c. Money owed by the business to its supplier.
 - d. An overdrawn balance on the firm's bank account.
- _____ 25. A debit may signify a decrease in
- a. A liability account
 - b. A revenue account
 - c. An asset account
 - d. A liability and a revenue account
- _____ 26. A P1,000 debit item is accidentally posted as credit. The trial balance column total thereof differ by
- a. P0
 - b. P1,000
 - c. P500
 - d. P2,000
- _____ 27. Which of the following errors will not cause the debit and credit columns of a trial balance to be unequal?
- a. Only part of the journal entry was posted
 - b. The trial balance was incorrectly summed
 - c. A debit amount was different from credit amount
 - d. A journal entry was accidentally posted twice
- _____ 28. Which of the following does not require entry in a journal form?
- a. A payment on a service performed previously

- b. A purchase of a one year insurance policy
 - c. Agreement to perform service at a future date
 - d. Perform a service to a customer
- _____ 29. Which of the following decreases both assets and owner's equity?
- a. Payment of a liability
 - b. Receipt of phone bill to be paid at later time
 - c. Owner withdrawal of cash
 - d. Advance payment made for insurance
- _____ 30. A depreciation is
- a. A decrease in the fair market value of an asset
 - b. An expense that is incurred during an accounting period
 - c. Added to the cost of equipment on the balance sheet
 - d. Shown on the balance sheet as a liability
- 31-35.** Using the formula
- A. **Cost of an Asset --(less) Accumulated depreciation = Book Value**
- B. **Cost of an Asset --(less) Salvage Value / (divided by) Useful Life = Depreciation Expense**
- find for the ff.
- _____ 31. If the equipment cost P200,000 and accumulated depreciation amounts to P60,000, the book value of the equipment is
- a. P260,000
 - b. P60,000
 - c. P140,000
 - d. Cannot be determined with the information provided
- _____ 32. If a machine has an original cost of P300,000, a salvage value of 20% of the original cost, and a useful life of 10 years, what is the annual depreciation expense?
- a. a. P16,000
 - b. b. P19,000
 - c. c. P90,000
 - d. d. P390,000
- _____ 33. The Furniture account has a net book value of P300,000 and accumulated depreciation recorded for 2 years is P150,000. What was the original cost of the furniture?
- a. P450,000
 - b. P150,000
 - c. P600,000
 - d. Cannot be determined with the information provided
- _____ 34. A building originally cost P1,200,000 and has a current book value of P900,000. What is the accumulated depreciation on the building?
- a. P300,000
 - b. P1,500,000
 - c. P1,200,000
 - d. P2,100,000
- _____ 35. A vehicle is bought for P500,000 with an annual depreciation rate of 15% of its cost. What is the accumulated depreciation for 2 years?
- a. P250,000
 - b. P125,000
 - c. P150,000

- d. P300,000
- _____ 36. A vehicle has an accumulated depreciation of P150,000 after 2 years, with an annual depreciation rate of 15%. What was the original cost of the vehicle?
- P500,000
 - P125,000
 - P1,000,000
 - P300,000
- 37-40.** Using the **T-Account (Debit - (less) Credit = (Normal Balance))** compute for the ff
- _____ 37. If Accounts Receivable has debit postings of P580,000, credit posting of P440,000, and a normal ending balance of P480,000, which of the followig was its beginnig balance?
- P620,000 CR
 - P340,000 CR
 - P620,000 DR
 - P340,000 DR
- _____ 38. If the Supplies account has a debit posting of P180,000, credit posting of P130,000, and an ending balance of P100,000, what was the beginning balance of the account?
- P50,000 DR
 - P100,000 DR
 - P50,000 CR
 - P200,000 DR
- _____ 39. If Accounts Payable has a beginning balance of P250,000, credit postings of P300,000, and debit postings of P200,000, what is the ending balance?
- P350,000 CR
 - P50,000 DR
 - P50,000 CR
 - P350,000 DR
- _____ 40. If Accounts Payable has a beginning balance of P250,000 and debit postings of P200,000, what is the ending balance, assuming there are no credit postings?
- P50,000 CR
 - P450,000 DR
 - P50,000 DR
 - P450,000 CR

41– 45: If ASSET = LIBALITIES+OWNER'S EQUITY, which of the following is correct?

| Assets | Liabilities | Owner's Equity |
|-------------|-------------|----------------|
| 41. | | |
| a. P7,850 | P1,250 | P6,660 |
| b. P8,200 | P0 | P8,200 |
| c. P9,550 | P1,150 | P8,200 |
| d. P5,240 | P6,540 | P1,120 |
| 42. | | |
| a. P100,000 | P2,000,000 | P1,900,000 |
| b. P200,000 | P100,000 | P100,000 |
| c. P800,000 | P400,000 | P300,000 |
| d. P320,00 | P300,000 | P10,000 |
| 43. | | |
| a. P500 | P250 | P250 |

| | | | |
|------------|----------|----------|----------|
| b. | P1,000 | P2,000 | P1,000 |
| c. | P500 | P500 | P1,000 |
| d. | P1,500 | P2,500 | P1,000 |
| <u>44.</u> | | | |
| a. | P1,000 | P500 | P500 |
| b. | P1,200 | P700 | P700 |
| c. | P1,000 | P700 | P500 |
| d. | P2,000 | P1,500 | P600 |
| <u>45.</u> | | | |
| a. | P150,000 | P100,000 | P55,000 |
| b. | P200,000 | P100,000 | P100,000 |
| c. | P180,000 | P100,000 | P180,000 |
| d. | P100,000 | P50,000 | P40,000 |

46-50. Use the following information to answer the question below. The following is the trial balance for Christina Duran Company:

Christina Duran Company

Trial Balance

October 31, 2024

| | | |
|---------------------|----------|---------------|
| Cash | 30,000 | |
| Accounts Receivable | 20,000 | |
| Supplies | 80,000 | |
| Prepaid Rent | 70,000 | |
| Prepaid Insurance | 80,000 | |
| Equipment | 50,000 | |
| Accounts Payable | | 50,000 |
| Salaries Expense | ? | |
| Utilities Expense | 80,000 | |
| Service Revenues | | ? |
| Duran, Withdrawal | ? | |
| Duran, Capital | | <u>15,000</u> |
| | <u>A</u> | <u>B</u> |

Note: Trial balance is always equal.

46. If the balance of the Duran, withdrawals account were P120,000 and the balance of the Salaries Expense account were P50,000, what would be the amount of B?
- a. P180,000
 - b. P580,000
 - c. P370,000
 - d. P380,000
47. If the trial balance showed a balance of P70,000 in the Duran, withdrawals account and balance of P50,000 in the Salaries expense account, what would be the amount of Service Revenue during the period?
- a. P335,000
 - b. P465,000

- c. P180,000
 - d. P435,000
- _____ 48. In the balance, the total asset is equals to
- a. P330,000
 - b. P230,000
 - c. P410,000
 - d. P430,000
- _____ 49. If the balance showed a balance of P80,000 in the Salaries expense account and a balance of P350,000 in the Service Revenues account, what would be the amount of A?
- a. P500,000
 - b. P510,000
 - c. P415,000
 - d. P430,000
- _____ 50. If the balance showed a balance of P80,000 in the Salaries expense account and a balance of P550,000 in the Service Revenues account, what would be the amount of Duran, withdrawal?
- a. P125,000
 - b. P155,000
 - c. P45,000
 - d. P60,000

----- Nothing Follows -----