

ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)
Department of Computer Science and Engineering (CSE)

MID EXAMINATION**SUMMER SEMESTER, 2019-2020****DURATION: 1 Hour 30 Minutes****FULL MARKS: 75****HUM 4641: Accounting**

There are 4 (four) questions. Answer any 3 (three) questions. All questions carry equal marks.

Programmable calculators are not allowed. Do not write anything on the question paper.

Figures in the right margin indicate marks.

1. a) Farlin company hired an employee for salary \$800. Will it be a transaction? Briefly explain the reason. 5
- b) An inexperienced bookkeeper prepared the following trial balance. Prepare a **correct trial balance**, assuming all account balances are normal. 8

KWUN COMPANY**Trial Balance**

December 31, 2018

Accounts Title	Debit	Credit
Cash	\$14,800	
Prepaid Insurance		\$3,500
Accounts Payable		3,000
Unearned Revenue	2,200	
P. Kwun, Capital		13,000
P. Kwun, Drawing		4,500
Service Revenue		25,600
Salaries Expense	18,600	
Rent Expense		2,400
	<u>\$35,600</u>	<u>\$52,000</u>

- c) The following information is related to the sole proprietorship of Leonard Mac, attorney. 12

Legal service revenue, 2018	\$350,000
Total expenses, 2018	211,000
Assets, January 1, 2018	85,000
Liabilities, January 1, 2018	62,000
Assets, December 31, 2018	168,000
Liabilities, December 31, 2018	85,000
Drawings—2018	?

Required:

Prepare the 2018 **Statement of Owner's Equity** for Leonard Mac's legal practice by calculating "Leonard Mac, Drawings" in 2018.

2. a) Arman Ahmed, a beginning accounting student, believes that double-entry system means each transaction must be recorded twice. Is Arman correct? Explain. 5
- b) Moinul Hasan is a licensed dentist. During the first month of the operation of her business, the following events and transactions occurred. 20

April 1: Invested \$40,000 cash.

April 1: Hired a secretary-receptionist at a salary of \$600 per week payable monthly.

April 2: Paid office rent for the month \$1,000.

April 3: Purchased dental supplies on account from Smile Company \$4,000.

April 10: Provided dental services and billed insurance companies \$5,100.

April 11: Received \$1,000 cash advance from Trudy Borke for an implant.

April 20: Received \$2,100 cash for services completed and delivered to John Stanley.

April 30: Paid secretary-receptionist for the month \$2,400.

April 30: Paid \$1,600 to Smile Company for accounts payable due.

Moinul uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 205 Unearned Revenue, No. 301 M.Hasan, Capital; No. 400 Service Revenue, No. 726 Salaries Expense, and No. 729 Rent Expense.

Required:

i) Journalize the transactions.

ii) Post to the ledger accounts.

iii) Prepare a trial balance on April 30, 2018.

3. a) A cloth store makes a sale of clothes for \$1,000 on November 30. The customer is sent a statement on December 5 and a cheque is received on December 10. The cloth store follows Revenue Recognition Principle. When is the \$1,000 considered to be earned? Explain the reason. 5

- b) Draw the Accounting Cycle. 5

- c) John Kent, D.D.S., opened a dental practice on January 1, 2018. During the first month of operations the following transactions occurred. 15

i) Performed services for patients who had dental plan insurance. At January 31, \$875 of such services was earned but not yet recorded.

ii) Utility expenses incurred but not paid prior to January 31 totaled \$520.

iii) Purchased dental equipment on January 1 for \$80,000, paying \$20,000 in cash and signing a \$60,000, 3-year note payable. The equipment depreciates \$400 per month. Interest is \$500 per month.

iv) Purchased a one-year malpractice insurance policy on January 1 for \$12,000.

v) Purchased \$1,600 of dental supplies. On January 31, determined that \$400 of supplies were on hand.

Required:

Prepare the adjusting entries on January 31. Account titles are: Accumulated Depreciation—Dental Equipment, Depreciation Expense, Service Revenue, Accounts Receivable, Insurance Expense, Interest Expense, Interest Payable, Prepaid Insurance, Supplies, Supplies Expense, Utilities Expense, and Utilities Payable.

4. a) John Frank believes that the analysis of financial statements is directed at two characteristics of a company: liquidity and profitability. Is John correct? Explain. 5
- b) Using the following data from the comparative balance sheet of Rodenbeck Company, prepare a schedule showing the **Horizontal Analysis** and **Vertical Analysis**. 8

	December 31, 2018	December 31, 2017
Accounts receivable	\$ 520,000	\$ 400,000
Inventory	\$ 840,000	\$ 600,000
Total assets	\$ 3,000,000	\$2,500,000

- c) Selected comparative statement data for Best Products Company are presented below. All balance sheet data are as of December 31. 12

	2018	2017
Net sales	\$660,000	\$620,000
Cost of goods sold	480,000	440,000
Interest expense	7,000	5,000
Net income	50,000	35,000
Accounts receivable	120,000	100,000
Inventory	85,000	75,000
Total assets	530,000	415,000
Accounts Payable	60,000	40,000
Bonds Payable	40,000	50,000
Common Stock	400,000	300,000
Retained Earnings	30,000	25,000
Cash Dividends	20,000	10,000

Required:

Compute the following ratios for 2018.

- (i) Inventory turnover.
- (ii) Asset Turnover.
- (iii) Return on assets.
- (iv) Return on common stockholders' equity.
- (v) Payout Ratio.
- (vi) Debt to Total Assets Ratio.