Multiple Choice: 22 points,30 min 16pts

Select the best answer to the following. Use the answer sheet on page 17 to record the letter that corresponds to your answer.

1. Which of the following **statement(s) is** correct?
   A. Property and equipment are current assets recorded at cost.
   B. The concept of depreciation is like accruing for unpaid expenses
   C. Depreciation expense for the current period represents the difference between the accumulated depreciation of the current period and the accumulated depreciation of the prior period
   D. The depreciation expense for a period using the straight line method equals the net book value of the asset divided by its estimated useful life.
2. The concept of adequate disclosure requires a company to inform financial statement users of each of the following, except:
   A. Income projections for the next five years based upon anticipated market share of a new product; the new product was introduced a few days before the balance sheet date.
   B. The accounting methods in use.
   C. The due dates of major liabilities.
   D. Destruction of a large portion of the company's inventory on January 20, three weeks after the balance sheet date, but prior to issuance of the financial statements.

3. The concept of adequate disclosure:
   A. Grants users of the financial statements access to a company's accounting records.
   B. Does not apply to events occurring after the balance sheet date.
   C. Specifies which accounting methods must be used in a company's financial statements.
   D. Does not apply to information which is immaterial.

4. The CPA firm auditing Mason Street Recording Studios found that total stockholders' equity was understated and liabilities were overstated. Which of the following errors could have been the cause?

A. Making the adjusting entry for depreciation expense twice.
B. Failing to record the earned portion of fees received in advance. unearned revenue
C. Failing to record interest accrued on a note payable.
D. Failing to make the adjusting entry to record revenue which had been earned but not yet billed to clients.

5. Owner's equity in a business may increase by:

A. Borrowing from a commercial bank.
B. Earnings from profitable operation of the business.
C. Losses from unprofitable operation of the business
D. Payments of cash to owners

6. Ski West adjusts its accounts at the end of each month, but closes them only at the end of each calendar year (December 31). The ending balances in the Equipment Rental Revenue account and the Cash account in February and March appear below.

	Feb. 28	Mar. 31
Cash	$14,200	$26,500
Equipment rental revenue	12,100	18,400

Ski West prepares financial statements showing separately the operating results of each month. In the financial statements prepared for the month ended March 31, Equipment Rental Revenue and Cash should appear as follows:

A. Equipment Rental Revenue $ 6,300 & Cash $26,500
B. Equipment Rental Revenue $ 18,400 & Cash $26,500
C. Equipment Rental Revenue$ 18,400 & Cash $12,300
D. Equipment Rental Revenue $ 6,300 & Cash $12,300

7. Liquidity may be defined as:
   A. Being able to buy everything the company requires for cash.
   B. The ability to pay the debts of the company as they fall due.
   C. Purchasing everything the company requires on credit.
   D. The ability to increase the value of retained earnings

8. Edward Master, president of Stained Glass, Inc, noticed a $8,000 debit to Accounts Payable in the company's general ledger. This debit could correspond to:
   A. A $8,000 sale to a customer.
   B. The failure to pay this month's $8,000 utility bill on time.
   C. A payment of $8,000 to a supplier to settle a balance due.
   D. A purchase of equipment costing $8,000 on credit.

9. The manager of Belle Home Improvements purchased several cash registers for the business on June 10 but does not remember whether he paid cash for the full price or still owes a balance to the vendor. Where is the *best* place for the manager to get the information about this transaction?
A. A balance sheet prepared at the end of June.
B. A trial balance prepared at the end of June.
C. The general journal.
D. The ledger account for equipment.

10. The Yellow Pencil Co., Inc. made an adjusting entry accruing interest on a note payable for the month of January for $700. The note required 10% per annum on the principal. The principal amount of the note payable must have been
   A.$ 8,400
   B.$ 7,000
   C.$66,667
   D.$84,000

700 × 0.1
~~$70 per year~~
~~700 → 10%~~
700 for 1 month
700 × 12 = 8400 for y
8400 → 10%
? ← 100%

11. The bookkeeper for Palace Mfg. made the following journal entry on January 30, 2005:

Land.....................	200,000	
Building..................	84,500	
Cash...............	....	64,500
Notes Payable	....	220,000

. *Refer to the above data.* This transaction involves:

A. An increase in liabilities of $220,000.
B. The sale of land and building for $284,500.
C. Payment of $220,000 on a note payable.
D. The receipt of $64,500 cash.

Land purchased
bldg. purchased
both for 64,500
& 220,000 on note

Problem 3: (24 points, 30min) 3pts

Manhattan Park adjusts and closes its books once on December 31 each year. The trial balance at Dec 31, 2010, before adjustments, follows:

	Debit	Credit
Cash	$84,400	
Supplies	2,800	
Prepaid Rent	17,000	
Unexpired Insurance	9,600	
Equipment	36,000	
Accumulated Depreciation: Equipment		$5,400
Taxes Payable		1,000
Unearned Admission Revenue		21,000
Note Payable		50,000
Share Capital		39,000
Retained Earnings		13,700
Admissions Revenue		55,500
Income Tax Expense	9,000	
Salaries Expense	13,100	
Utilities Expense	2,600	
Rent Expense	8,900	
Interest Expense	2,200	
	$185,600	$185,600

Additional Information:

1. The insurance was paid on Jan 1, 2010 to cover 15 months.
2. Salaries are paid every week on Friday. The year-end, December 31, fell on a Wednesday. Salaries earned by employees, but not recorded or paid as of December 31st, 2010, amount to $ 1,800.
3. 18 months' rent was prepaid on June 1, 2010.
4. Supplies on hand at Dec 31, 2010 $2,500.
5. $11,000 of Fees collected in advance were earned during 2010. unearned revenue
6. The useful life of the equipment was estimated to be 20 years with no residual value. RV = 0
7. Income tax expense for the year is $10,500.

8. The company borrowed $50,000 on January 1, 2010 from the local bank and signed a note, payable in two years. The company pays the interest that accrued in the prior month on the first day of the following month. For example, the interest that accrues during January is paid on February 1st, and so on.

Instructions:

1. Prepare the necessary adjusting entries at December 31, 2010.
2. Determine the amount of rent paid on June 1, 2010.
3. Determine the number of year that the equipment has been used as of December 31, 2010.
4. Determine the average monthly rent expense during 2010
5. Determine the amount **of tax expense paid** during the year.

		Debit	Credit
1) 31/12	Rent	~~$17,000~~	
	Prepaid Rent		~~$17,000~~
31/12	Insurance	~~$9,600~~	
	Unexpired Insurance		~~$9,600~~
31/12	Unearned Revenue	~~$21,000~~	
	Revenue		~~$21,000~~

2) ~~$ 8,900 = 6 months prepaid rent~~
~~⇒ monthly rent = $1483~~
~~on June 1, prepaid for 18 months = 18 × 1483~~ ~~$ 26,700~~
Rent Expense + Prepaid Rent = 8900 + 17000
= $25,900 ← paid on June 1

3) acc. depr. = $5,400

$$= \frac{36,000 - 0}{\text{no. of years}}$$

⇒ no. of years = 6.66 years 4 years

rent expense for 6 months

4) $\frac{8900}{6} = \cancel{[illegible]}\ \$1483$

average rent expense for 1 month

5) for the year $10,500

10,500 - 9000 - 1000 = $500

4 pts.

Problem 4 (5 points, 5min)

Indicate the immediate effect of the following errors or omitted transactions on each of the accounting elements described in the column headings below, using the following code: O = Overstated; U = Understated; NE = No Effect.

		Total Revenue	Total expense	Profits	Total assets	Total Liabilities	Equity
1	Failed to record the collection of an account receivable.	NE	NE	NE	NE	NE	NE
2	Recorded the purchase of Office equipment on account as a debit to supplies Expense and a credit to Account Payable.	NE	O	U	U	NE	U
3	Recorded payment of an account payable by a credit to cash and debit to an expense account.	NE	O	U	NE	O	U
4	Failed to record depreciation expense for the period.	NE	~~NE~~ U	~~NE~~ O	O	NE	O
5	Received $500 cash for services rendered to a customer, but recorded the transaction as $50.	U	NE	U	U	NE	U

Problem 5: 6points, 10 min 5 pts

10/share

Doug Maltbee & his friend formed a lawn service business. To start the business on 1 May, they issued 100 shares of stocks for $1,000 and deposited it in a new bank account in the name of the company : Maltbee Lawn Services Inc.. The $1,000 consisted of a $600 loan from their parents and $400 of their own money. The company rented lawn equipment, purchased supplies, and hired fellow students to mow and trim its customer's lawns.

At the end of each month, Maltbee mailed bills to its customers. On August 31, they decided to dissolve (stop) the business and return to University for the next semester. As they were so busy, they kept few records other than the company's check book and a list of amounts owed to by customers.

cash

On 31 August, the company's check book showed a balance of $2,090, and customers still owe Maltbee $800. During the summer $4,150 were collected from customers. Records show that payments for supplies totaled $200, and those on hand at Aug 31 were $60. Payments made to employees for salaries were $1,200, and amounts still owed to employees were $200 for the final week of the summer.

A/R rev. expenses S/P

Maltbee rented some equipment from Scholes Machine Shop. On 1 May, a six-month rent agreement was signed for mowing equipment and paid $750 for the full rent period. Scholes will refund the unused portion of the prepayment if the equipment is in good shape. In order to get the refund, Maltbee has kept the mowers in excellent condition. In fact, it had to pay $300 to repair a mower.

$350

To transport employees and equipment to jobs, Maltbee used a trailer that was bought for $450. The summer's work used up one-third of the trailer's service potential. The business check book lists a payment of $160 for cash distributions to Doug & his friend during the summer

divide dep. = 331.

Required

1. Determine the amount of revenue earned during the four months of operation ended Aug 31.
2. Determine the salaries expense for the four months ended Aug 31.
3. Determine the amount of refund that Maltbee is entitled to at Aug 31 with respect to the equipment rented from Scholes on May 1.
4. Determine the book value of the trailer on Aug 31.

1) Revenue = $4150 + $800 = $4950

collected during summer — customers still owe

2) Salaries Expense = $1200 + $200 = $1400

paid to employees — still owed to employees (S/P)

3) \$300 were used to repair mower.

Scholes will refund the unused portion of the \$750

so, refund = \$750 - 300 = \$350

4) Original price = \$450
period = 4 months

used up one third of trailer's service

Book value = 66% x 450
= ~~\$300 at Aug. 31~~

Answer Key

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

Scorpio Travel

Statement of changes in Equity
For the Year of 2009

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Beginning O.E.	$28,100	
Retained Earnings	$13,200	
Dividends		$700
Profits		$11,400
Ending O.E.	$29,200	23,900

	Debit	Credit
2) Income Summary	$14,600	
Dep. Expense		$3000
Salaries Expense		$4050
Utilities Expense		$3950
Rent Expense		$3600
Admissions Revenue	$26,000	
Income Summary		$26,000

4

	Debit	Credit
3) Income Summary	$11,400	
R.E.		$11,400

4

balance of R.E. = $24,600 × 23,900