S. Olayan School of Business
Acct 210
Midterm I
Summer 2003-2004

Name: [redacted]

Date: July 19, 2004

Duration: 2 hours

Instructions:

1. This examination paper consists of 7 pages including this page. Please make sure your paper has all pages before commencing to write.
2. Write your name on both the exam and answer booklets. **Write your answers in the answer booklet. You have to hand in both of the exam copy and the answer booklet.**
3. Read the questions carefully and budget your time wisely. Show all calculations.
4. This is a closed book examination. However, silent hand-held calculators are permitted.
5. Kindly make sure to sign and write your ID # next to your name on the attendance sheet when you hand in your paper.

Question	Type	Points	Minutes
1	True or False	10	10
2	Multiple choice	28	40
3	Adjusting Entries	20	15
4	Transactions	42	55
	Total	100	120

Good Luck!

line of credit: facility
to borrow money
you didn't withdraw them yet
they are not yours

TRUE/FALSE

Indicate whether the sentence or statement is true or false.

F 1. All adjustments will involve the cash account.

F 2. Personal computers for use by a company's accounting department would be found in the balance sheet account called inventory.

T 3. A company that has paid dividends in the past is legally required to do so in the future.

4. A company receiving approval for a $20,000 line of credit should record a current liability called notes payable.

F 5. Individual account balances can be found in a book known as the journal.

6. If a trial balance is correct, then all account balances are correct.

F 7 The Cash account should be closed out at the end of each period.

T 8. In accrual accounting, Revenues and Expenses need not coincide with cash flows.

F 9. Dividends represent an expense.

T 10. After closing, all accounts will always have a zero balance.

II. MULTIPLE CHOICE:

1. Sweney Company had $250,000 of current assets and $90,000 of current liabilities before borrowing $60,000 from the bank with a 3-month note payable. What effect did the borrowing transaction have on the amount of Sweney Company's working capital?

   a. No effect
   b. $60,000 increase
   c. $90,000 increase
   d. $60,000 decrease

CA 250,000 CL 90,000

2. If total liabilities increased by $5,000, then

   a. assets must have decreased by $5,000. x
   b. shareholders' equity must have increased by $5,000.
   c. assets must have increased by $5,000, or shareholders' equity must have decreased by $5,000.
   d. assets and shareholders' equity each increased by $2,500. x

A=L+E

3. The usual sequence of steps in the recording process is to

   a. analyse each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.
   b. analyse each transaction, enter the transaction in the ledger, and transfer the information to the journal.
   c. analyse each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.

d. analyse each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.

4. A furniture factory's employees work overtime to finish an order that is sold on February 28. The office sends a statement to the customer in early March and payment is received by mid-March. The overtime salaries should be expensed in
   a. February.
   2 b. March.
   c. the period when the workers receive their cheques.
   X d. either February or March depending on when the pay period ends.

5. A law firm received $2,000 cash for legal services to be rendered in the future. The full amount was credited to the liability account Unearned Service Revenue. If the legal services have been rendered at the end of the accounting period and no adjusting entry is made, this would cause
   we should transform an asset to an expense
   a. expenses to be overstated. x
   Unear.
   b. net earnings to be overstated.
   c. liabilities to be understated.
   d. revenues to be understated

6. Tam's Car Repair Shop started the year with total assets of A $60,000 and total liabilities L of $40,000. During the year the business recorded $100,000 in car repair revenues, $55,000 in expenses, and dividends of $10,000. Shareholders' equity at the end of the year is equal to
   a. $55,000
   b. $35,000
   c. $65,000
   d. $45,000

$E = 60,000 - 40,000 = \boxed{20,000}$ $A = L + E$

$60,000 = 40,000 + E$

$100,000$

7. The basic accounting principle that determines when revenues should be recorded under accrual accounting is:
   a. the realization principle
   b. the reliability principle.
   c. the historical cost principle
   d. the time period principle

8. Compounding represents:
   a. an expense
   b. interest on previous interest
   c. amortization
   d. abnormal economic earnings X

9. If you want to withdraw $109 on December 31, 2002, how much would you have to invest on January 1, 2002 assuming that you can earn an interest rate of 9 percent compounded annually?
   a. $118.81
   b. $91.74
   c. $9.81
   d. $100.00

Jan1 2002 — dec31 2002: 109

$FV = PV(1+i)^n$

$PV = \frac{FV}{(1+i)^n} = \frac{109}{(1+9\%)}$

Use the following information to answer questions 10 and 11:

The following information pertains to operations of Tull Company for the accounting period January 1, 2001 – December 31, 2001.

Revenues	$15,000	
Cost of Goods sold	$10,000	
Accounts receivable balance (Jan. 1)	$50,000	A/R ↑ 10,000
Accounts receivable balance (Dec. 31)	$60,000	
Inventory balance (Jan. 1)	$90,000	Inv ↑ 9,000
Inventory balance (Dec. 31)	$99,000	
Accounts payable balance (Jan. 1)	$30,000	AP ↑ by 15
Accounts payable balance (Dec. 31)	$45,000	

Sales + ↓ A/R

COGS + ↑ Inv − ↑AP

10. The cash collected from customers is:
   a. $5,000
   b. $15,000
   c. $25,000
   d. $50,000

15,000 − 10,000 = 5,000

11. The cash paid to suppliers is:
   a. $34,000
   b. $4,000
   c. $16,000
   d. $14,000

10,000 + 9,000 − 15

12. Suppose your bank account indicates a balance of $224.72 on December 31, 2003. Assuming that you initially deposited $200 on January 1, 2002 and made no withdrawals, what interest rate must have you earned? Assume that interest is compounded annually.
   a. 8%
   b. 6%
   c. 7%
   d. 9%

Jan 1 2002 — dec 31, 2002 — dec 31, 2003

200 — 224.72

$FV = PV(1+i)^{2}$

$224.72 = 200(1+i)$

$224.72 = 200 + 200i = 0.12$

$0.12 \times 100 = 12\%$

13. The Walsh Company's financial records include the following information:

Cash flows from Operations:	$90,000	
Cash flows from Investing:	($80,000)	90 − 100
Cash flows from Financing:	($20,000)	− 10,000
December 31, 2002 cash balance:	$40,000	

What must have been the January 1, 2002 cash balance?
   a. $150,000
   b. $5,000
   c. $50,000
   d. $230,000

14. The following information pertains to The Lutz Company pertains to operations for the accounting period January 1, 2001–December 31, 2001.

Cash collections: $560,000

collection from customers 560,000 5,000
Int Exp 50,000 − ~~55,000~~ = ~~(50,000)~~
cash coll =(45,000)

wages Exp 90,000 +10,000 = (100,000)

Amortization expense:	$30,000	560,000
Depreciation expense:	$50,000	(45,000)
Interest expense:	$50,000	(100,000)
Wages expense:	$90,000	
Dividends paid:	$99,000	415,000
Wages payable balance (Jan. 1):	$40,000	
Wages payable balance (Dec. 31):	$30,000	
Interest payable balance (Jan. 1):	$55,000	
Interest payable balance (Dec. 31):	$60,000	

Based upon the above information, determine the amount of cash flows from operations:

a. $316,000
b. $236,000
c. $615,000
d. $415,000

PROBLEM 1: ADJUSTING ENTRIES

Hash House Restaurant has a fiscal year that ends December 31. The company prepares annual financial statements and adjusts its books once a year. Presented below is information relating to conditions that exist at December 31, 2000, which may require an adjusting entry.

Required:

For each item, prepare **only** the **adjusting entry** required at December 31, 2000 and answer any related questions. If no adjustment is required, write no entry required.

a. The restaurant sublets office space to a consulting company. The space rents for $800 per month. All rents were paid through 11/30/00, but the company has not yet received the rent for December. The consulting company has promised that a check will be mailed the first week in January 2001.

b. The company hired a new professional chef whose weekly salary will be $1,000. The chef will begin work on January 1, 2001.

c. On July 1, 2000, a three-year insurance policy on equipment in the amount of $2,400 was purchased for cash and debited in full to the prepaid insurance account. Coverage began on July 1, 2000.

Pre-paid isn cash

d. Several new brides have made deposits on weddings. The amount of $10,000 was recorded in a "wedding deposit" account. A wedding was held during December 2000 for which the bride had made an initial deposit of $2,000.

e. The restaurant has unpaid utility bills from December 2000 amounting to $2,000. The bills will be paid on the first Friday in January 2001.

f. On November 1, 2000, the company borrowed $100,000 from the local bank on a one year 6 percent note payable. The principal plus interest is payable at the end of 12 months.

due this year but paid next year

g. The company estimates that it will owe $50,000 in Federal income taxes on its 2000 income tax return, which is due on March 15, 2001. Income 2000

PROBLEM 2: TRANSACTIONS

1. Below is a balance sheet for Rick, Frank & Stan Co. as of December 31, 2000:

Rick, Frank & Stan Co.
Balance Sheet
As of December 31, 2000

Assets			Liabilities and Equities		
Cash	$87.0		Accounts Payable	$150.0	
Accounts Rec.	154.0		~~Wages Payable~~	~~36.0~~	
Inventories	203.0		Interest Payable	12.0	
Prepaid Rent	25.0		Other Accrued Liabilities	64.0	
Total Current Assets:		$469.0	Total Current Liabilities:		$262.0
			Mortgage Payable		325.0
Property, Plant & Equipment	$700.0		Total Liabilities:		$587.0
Accumulated Depreciation	(280.0)				
Property, Plant & Equip., net		$420.0	Common Stock	$20.0	
Land		170.0	APIC	200.0	
Other Assets		35.0	Retained Earnings	287.0	
Total Non-current Assets:		$625.0	Shareholders' Equity:		$507.0
Total Assets		$1,094.0	Total Liabilities & Shareholders' Equity		$1,094.0

The following information pertains to 2001:

a. Sales were $2,110.00, all on account.
b. Collections on accounts receivable were $2,050.00.
c. On January 1, 2001, Rick, Frank & Stan sold a building for $120.00 cash. The building originally cost $200.00 and had accumulated depreciation of $80.00.
d. Rick, Frank and Stan calculate depreciation expense using the straight-line method and an asset life of ten years for Property, Plant & Equipment.
e. Dividends paid: $20.00.
f. Cash paid for wages was $95.00. (Don't forget to look at the balance sheet for any unpaid wages).
g. Total wage expense for 2001 was $90.00, including what was paid in transaction f.

h. Cash payments for SG&A (selling, general, and administrative) expenses: $50.00. These payments are in addition to any SG&A expenses that are derived from prepaids or liability accounts.

i. Purchases were $1,497.00, all on account.

j. A physical count of inventory found $250.00 on hand at December 31, 2001.

k. Payments on accounts payable were $1,500.00.

l. Additions to prepaid rent: $50.00.

m. The balance of prepaid rent at December 31, 2001 was $30.00.

n. The beginning balance of "other accrued liabilities" was paid off in cash. "other accrued liabilities" at the end of the year, all relating to miscellaneous expenses, amounted to $54.00.

Required:

1) Journalize each of the above transactions and/or prepare any necessary related adjusting entries.
2) Next to each entry you prepare, indicate the section of the Cash Flow Statement where this item would be shown - if at all. Use 'O' for Operating, 'I' for Investing, 'F' for Financing, and 'N' for Not shown.
3) Prepare the required closing entries.
4) Determine the ending RETAINED EARNINGS BALANCE.