American University of Beirut
School of Business
ACCT 210
Midterm Exam
Spring 2001-2002

April 24, 2002

Name: [redacted]

ID #: [redacted]

Section: 1

Instructor: [illegible]

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Time: 2 Hours

The exam contains 5 questions, make sure you answer them all, show all supporting computations!

Good Luck!

225

Question 1: (25points, 25 min)

Circle the correct answer for each of the following:

1.Mike Rodgers, owner of Mike's Taco Barn, also owns a personal residence that cost $130,000, but has a market value of $250,000. During preparation of the financial statements for Mike's Taco Barn, the accounting principle most relevant to the presentation of Mike's home is:

- **a** The concept of the business entity.
- **b** The cost principle.
- **c** The going-concern assumption.
- **d** The objectivity principle.

2.Rolling Acres Development Corporation recently sold a parcel of land for $50,000 more than its cost. This transaction:

- **a** Increased assets and liabilities.
- **b** Increased stockholder's equity and assets.
- **c** Reduced assets and stockholder's equity.
- **d** Increased assets and left liabilities and stockholder's equity

3.MicroDevices sold and delivered modems to Dale Computers for $360,000 to be paid by Dale in three equal installments over the next three months. The journal entry made by Micro Devices to record this transaction will include:

- **a** A debit to Sales Revenue for $360,000.
- **b** A debit to Accounts Receivable for $360,000.
- **c** A debit to Accounts Receivable for $120,000.
- **d** A debit to Cash Due for $360,000.

4.Video Connection offered books of video rental coupons to its patrons at $30 per book. Each book contained a certain number of coupons for video rentals. During the current period 1,000 books were sold for $30,000, and this amount was credited to Unearned Rental Revenue. At the end of the period it was determined that $10,000 worth of book coupons had been used by customers to rent videos. The appropriate adjusting entry at the end of the period would be:

- **a** Debit Rental Revenue $20,000 and credit Unearned Rental Revenue $20,000.
- **b** Debit Rental Revenue $10,000 and credit Unearned Rental Revenue $10,000.
- **c** Debit Unearned Rental Revenue $20,000 and credit Rental Revenue $20,000.
- **d** Debit Unearned Rental Revenue $10,000 and credit Rental Revenue $10,000.

Use the following data for questions 5 through 7.

Towne Electronics Co. uses a perpetual inventory system. The company's beginning inventory of a particular style of large screen televisions and its purchases during the month of January were as follows:

	Quantity	Unit Cost	Total
Beginning inventory (Jan. 1)...............	40	$200	$8,000
Purchase (Jan. 12).............................	20	221	4,420
Purchase (Jan. 28).............................	10	158	1,580
Total	70		$14,000

On January 15, Towne Electronics Co. held its annual Super Bowl Large Screen TV Sale Day. On this day 55 of these televisions were sold. The remaining 15 units above remain in inventory at January 31.

20×221
35×200

5. ***Refer to the above data.*** Assuming that Towne Electronics uses the ***LIFO*** flow assumption, the cost of goods sold to be recorded at January 15 is:

- **a** $11,420.
- **b** $11,000.
- **c** $11,315.
- **d** Some other amount.

6. ***Refer to the above data.*** Assuming that Towne Electronics uses the ***average cost*** flow assumption, the cost of goods sold to be recorded at January 15 is:

- **a** $11,385.
- **b** $11,000.
- **c** $11,315.
- **d** Some other amount.

7. ***Refer to the above data.*** Assuming that Towne Electronics uses the ***periodic inventory system*** and the ***LIFO*** flow assumption, the value of its ending inventory of this television set will be:

- **a** $2,580.
- **b** $2,685.
- **c** $3,000.
- **d** Some other amount.

Use the following data for question 8.

At year-end, the perpetual inventory records of Ward Products indicate 105 units of a particular product in inventory, acquired at the following dates and unit costs:

Acquisition Date	Quantity	Unit Cost	Total
May 3	45	$22	$ 990
Sept. 9	60	36	2,160
Total on hand	105		$3,150

However, a complete physical inventory taken at year-end indicates only ***95*** units of this product actually are on hand.

8.Determine the dollar amount of the shrinkage loss assuming that Ward uses A LIFO flow assumption.

a. **$360**
b. **$220**
c. **$630**
d. **$210**

9.The entry to record depreciation expense is an example of:

a A closing entry.
b An adjusting entry.
c Cash basis accounting.
d A reduction in owner's equity that does not affect the computation of net income for the period.

10. In which of the following situations would an adjusting entry be made at the end of January to accrue an unpaid expense?

a Ali's Daycare purchased playground equipment on January 1 with an estimated useful life of six years.
b. On January 25, Ali's Daycare hired a college student to drive the minibus; the new employee is to begin work in February.
c January 31 falls on a Tuesday; salaries are paid on Friday of each week.
d. On January 31, Ali's Daycare paid the interest owed on a note payable for January.

$12\frac{1}{2}$

Question 2: (20points, 30 min)

On May 15, Garth Taylor began a new business, called Studio Uno–a recording studio to be rented out to artists on an hourly or daily basis. The following six transactions were completed by the business during May:

- **a** Issued to Taylor 8,000 shares of capital stock in exchange for his investment of $40,000 cash.
- **b** Purchased land and a building for $135,000, paying $20,000 cash and signing a note payable for the balance. The land was considered to be worth $90,000 and the building $45,000.
- **c** Installed special insulation and soundproofing throughout most of the building at a cost of $20,000. Paid $5,000 cash and agreed to pay the balance in 60 days. Taylor considers these items to be additional costs of the building.
- **d** Purchased office furnishings costing $5,400 and recording equipment costing $23,100 from Total Warehouse. Paid $8,000 cash, with the balance due in 30 days.
- **e** Borrowed $35,000 from a bank by signing a note payable.
- **f** Paid the full amount of the liability to Total Warehouse arising from the purchases in **d** above.

Instructions

1. Post the above transactions directly in the T accounts below. Identify each entry in a T account with the letter shown for the transaction. This exercise does not call for the use of a journal.

Cash

a- 40000	b- 20000
e- 35000	c- 5000
	d- 8000
	f- 20500
21500	

Office Furnishings

d- 5400	
5400	

Notes Payable

	b- 115000
	e- 35000
	150000

Land	
b - 90000	
90000	

Recording Equipment	
d - 23100	
23100	

Accounts Payable	
f - 20500	c - 15000
	d - 20500
	15000

Buildings	
b - 45000	
c - 20000	
65000	

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Capital Stock	
	a - 40000
	40000

2. Prepare a trial balance at May 31,2002

Studio Uno		
Trial balance		
Date		
Cash	21500	
Office furnishings	5400	
Land	90000	
Recording equipment	23100	
Building	65000	
N/P		150000
A/P		15000
Capital stock		40000
	205000	205000

6 1/2

Question 3 : (30 points 30min)

Yankee Company uses a perpetual inventory system and FIFO for the valuation of its inventory, and the net cost method . Beginning Inventory on Oct 1, 2002 consisted of two layers: the earliest layer of 235 units at $35/unit and second layer of 250 units at $37/unit. Yankee Company engaged in the following transactions in October: Round all numbers to the nearest dollar. (No Decimals).

Oct	7	Sold 245 units at a price of $40/unit on credit to Boris Lund
	8	Purchased 300 units at a cost of $39/unit on credit from Hilton Company, terms, 2/10, n/30.
	10	Purchased 200 units for $7,800 cash from Main Company
	14	Sold 300 units to Sue Martin on credit at a price of $45/unit.
	14	Returned 100 units of damaged merchandise received from Hilton Company on Oct 8 for credit .
	17	Received check from Boris Lund for his purchase of Oct 7.
	19	Sold 225 units for $11,250 cash
	21	Paid Hilton Company the balance from transactions of Oct 8 and Oct 14

Instructions:

1. Prepare journal entries to record the above transactions(omit explanations).

General Journal			
Date	Descriptions	Debit	Credit
oct 7	A/R(Burns) (245x40)	9800	
	Sales		9800
	C.C.S (235x35)+(10x37)	8595	
	Inv		8595
oct 8	Inv (300x39)x98%	11466	
	A/P		11466
oct 10	Inv	7800	
	Cash		7800
oct 14	A/R(Suc) (300x45)	13500	
	Sales		[illegible]
Oct 14	C.C.S (240x37)+(60x39)	11220	
	Inv		11220
[illegible]	A/P (100x39)	3900	
	Inv		3900
oct 17	Cash	9800	
	A/R(Burns)		9800
oct 15	Cash	11250	
	Sales		11250
	C.C.S (225x39)	8775	
	Inv		8775
oct 20	A/P	11466	
	Purchase Discount lost (300x39)x2%	234	
	Cash		11700

2. Post to the inventory subsidiary ledger below:

Date	Purchases			Sales			Balance		
	U	C/U	T	U	C/U	C.C.S	U	C/U	T
oct 1							235	35	
							250	37	17475
oct 7				235	35				
				10	37	8595	240	37	8880
oct 4	300	39	11700				240	37	
							300	39	20580
oct 10	200	39	7800				240	37	
							500	39	28380
oct 14				240	37				
				60	39	11220	440	39	17160
	(100)	39	(3900)				340	39	13260
oct 19				225	39	8775	115	39	4485

13 1/2

Question 4:(20points,30min)

Forum Consulting adjusts its books *each month* and closes its books at the end of the year. The trial balance at January 31, 2001, *before adjustments* is as follows:

	Debit	Credit
Cash	$ 44,050	
Accounts Receivable	30,000	
Supplies	3,750	
Prepaid Advertising	8,400	
Equipment	72,000	
Accumulated Depreciation: Equipment		$ 25,000
Unearned Consulting Fees		19,500
Income Taxes Payable		17,600
Capital Stock		20,000
Retained Earnings		26,500
Consulting Fees Earned		87,300
Salaries Expense	32,000	
Utilities Expense	1,200	
Rent Expense	4,500	
	$195,900	$195,900

The following information relates to month-end adjustments:

- **a** According to contracts, consulting fees received in advance that were earned in January total $13,000.
- **b** On November 1, 2000, the company paid in advance for 6 months' advertising in professional journals.
- **c** At January 31, supplies on hand amount to $1,250.
- **d** The equipment has an original estimated useful life of 6 years.
- **e** The corporation is subject to income taxes of 40% of taxable income. (Assume taxable income is the same as "income before taxes.")

3

a- Dr fees earned 1300
Cr unearned fees 1300

b- Dr Advertising expense 1400
Cr prepaid Advertising 1400

c. Supplies expense 2500
supplies 2500

d. Deprec exp. 1000
Acc dep [illegible]

Instructions:

1 Prepare adjusting entries for the above a through e.

General Journal			
Date	Descriptions	Debit	Credit
Jan 31	Dr Consulting fees earned	13000	
	unearned " " "		13000
Jan 31	Advertising expense	1400	
	prepaid Advertising		1400
	(1400 ÷ 8)		
Jan 31	Supplies expense	2500	
	supplies		2500
Jan 31	Depreciation expense Equipment	1000	
	Acc. " Equipment (7200 ÷ 72)		1000
Jan 31	Income taxes expense	7040	
	Income taxes payable		7040
	(17600 x 40%)		

3

1½

3

1½

1½

2 After the proper adjusting entry is made, determine the balance in the Unearned Consulting Fees account at January 31? $ 6500

1 (19500 - 13000)

3 Compute the amount to be reported in the January income statement for the following:

Advertising Expense	$ ~~4200~~ (1400×3)
Supplies Expense	$ 2500 (1)

4 What is the *book value* of the equipment at January 31 after the proper adjusting entry is recorded

(Equipment Acc Depr) : 72000 - 25000 - 1000

= ~~45800~~ (1)

Question5:(5points,5min)

The trial balance of little Ray Company at Dec 31, 2002 is listed below in alphabetical order.
The Company uses a periodic Inventory system and closes its accounts once at the end of the year.

The little Ray Company

Trial Balance

Dec 31 2002

	Debit	Credit
Accounts Payable		$ 24,500
Accounts Receivable	$ 33,000	
Accumulated Depreciation:		81,000
Advertising Expense	1,500	
Capital Stock		50,000
Cash	29,000	
Dividends	$7,000	
Equipment	162,000	
Inventory	5,000	
Purchases	25,000	
Retained Earnings		46,000
Salaries Expense	12,000	
Sales		78,000
Supplies	5,000	
Total	$ 279,500	$279,500

(5)

Assume that a physical count at Dec 31 showed that the ending inventory was $3,000.