10 points 10 min.

SEW Inc.
Trial Balance
December 31

	Debit	Credit
Cash	$ 12	
Accounts Receivable	22	
Equipment	187	
Accounts Payable		$ 17
Capital Stock		102
Retained Earnings		52
Dividends	7	
Service Revenue		173
Salaries Expense	82	
Depreciation	22	
Supplies Expense	12	
	$344	$344

1 What is the balance in Income Summary before it is closed to Retained Earnings?

a 57.
b 50.
c 69.

2 What is the balance in Retained Earnings after posting closing entries at December 31?

a 109.
b 102.
c 57.
d 50.

3 What is the total debit on the after-closing trial balance?

a 228.
b 344.
c 221.
d 171.

4 Which accounts are closed to Income Summary?

a All accounts.
b Revenue and expenses.
c Revenue, expenses, and dividends.
d All accounts that are not nominal.

5 Which accounts will appear on the balance sheet?

a retained earnings of $52.
b dividends of $7.
c net income of $50.
d none of the above.

2. **20 points 15 min.**

Using the Adjusted Trial Balance shown below, prepare (a) an Income Statement and (b) a Statement of Retained Earnings for All Star Repairs.

All Star Repairs Adjusted Trial Balance July 31, 20__		
	Debit	Credit
Cash	$20,020	
Accounts receivable	70,400	
Supplies	2,310	
Shop equipment	26,400	
Accumulated depreciation: shop equipment		$9,460
Accounts payable		17,820
Notes payable		3,520
Income taxes payable		26,532
Capital stock		22,000
Retained earnings		5,720
Dividends	16,500	
Fees earned		126,500
Rent expense	8,800	
Wages expense	35,420	
Supplies expense	2,750	
Utilities expense	1,980	
Depreciation expense: shop equipment	440	
Income taxes expense	26,532	
	$211,552	$211,552

- Calculate the Current Ratio and Working Capital and indicate their implications.
- Calculate ROE and Net Income percentage and comment on the significance of each.

3. **15 points 10 min.**

Shown below is a trial balance for Novelty Toys, Inc., on December 31, after the first year of operations, after adjusting entries:

Novelty Toys, Inc Trial Balance December 31, 2008		
Cash	$ 7,750	
Accounts receivable	6,375	
Office equipment	11,250	
Accumulated Depreciation		$ 3,000
Accounts payable		3,875
Capital Stock		11,250
Retained earnings		-0-
Dividends	3,750	
Fees earned		22,750
Salaries expense	8,000	
Advertising expense	1,625	
Depreciation expense	2,125	
	$40,875	$40,875

Refer to the above data. The entry to close the Fees Earned account will:

A) Produce a zero balance in that account when posted.
B) Include a debit to Income Summary.
C) Include a credit to Fees Earned.
D) Include a debit to Capital Stock.

Refer to the above data. The entry to close Salaries Expense account will:

A) Produce a zero balance in that account when posted.
B) Include a credit to Income Summary.
C) Include a debit to Salaries Expense.
D) Include a credit to Capital Stock.

• Refer to the above data. Net income for the period equals:

A) $18,375.
B) $11,000.
C) $ 5,800.
D) Some other amount.

22000
(8000)
(1625)
(2125)

1. Refer to the above data. After closing the accounts, Retained earnings at December 31 equals:
A) $11,000.
B) $ 7,250.
C) Zero.
D) Some other amount.

11000 - 3750

2. Refer to the above data. The total debits in the After-Closing Trial Balance will equal:
A) $25,375.
B) $29,125.
C) $40,875.
D) Some other amount.

7750 + 6375 + 11250

3. Refer to the above data. Income Summary will have what balance before it is closed?
A) Zero.
B) $11,750.
C) $ 7,250.
D) Some other amount.

4. **2.5 points 3 min.**

If sales are $180,000, expenses are $140,000 and dividends are $30,000, Income Summary:
A) Will have a credit balance of $40,000.
B) Will have a debit balance of $40,000.
C) Will have a debit balance of $10,000.
D) Will have a credit balance of $10,000.

5. **2.5 points 3 min.**

The balance in Income Summary:
A) Should equal retained earnings.
B) Will always be equal to the increase in retained earnings.
C) Will equal net income less dividends.
D) Will equal net income or net loss.

6. **15 points 10 min.**

Morton Co. is an office supply store. The company uses a perpetual inventory system, records purchases at *net cost*, and records sales revenue at full invoice price. Record the following transactions in the company's general journal.

July 1	Purchased four Nonac copying machines on account from Nonac Corp. Total invoice price was $3,500 per machine ($14,000 total); terms of 2/10, n/30. These machines are intended for resale.
3	Found one of the Nonac copiers to be defective and returned it to Nonac.
9	Sold one of the Nonac copiers to Larry Realty. The sales price was $4,500, terms 5/10, n/60.
10	Paid the remaining amount owned to Nonac Corp.
19	Received full payment from Larry.

7. **15 points 10 min.**

At the end of last year, Barbar's Bazaar had merchandise costing $374,000 in inventory. During January of the current year, the company purchased merchandise costing $126,500, and sold merchandise which it had purchased at a total cost of $102,300.

a) Assume that Barbar's Bazaar uses a ***perpetual*** inventory system:

00 (1) What is the total amount debited to the Inventory account during January? -102

0 (2) What is the the ***balance*** in the Inventory account at January 31? (374,000+126

00 (3) What is the amount of costs transferred from the Inventory account to the Cost of Goods Sold account during January?

b) Assume that Barbar's Bazaar uses a ***periodic*** inventory system and takes a physical inventory ***only at year-end*** (December 31). (*Note:* $0 may be an appropriate answer to one or more of the following questions.) Answer assuming closing entries are not yet made.

(1) What is the total amount debited to the Inventory account during January?

(2) What is the ***balance*** in the Inventory account at January 31?

(3) What is the amount of costs transferred from the Inventory account to the Cost of Goods Sold account during January?

0

13720
Hp 13700

Fly9 A/R 4500
Sals 4500
c.o.g. 53430

19
Co
Sa

b- N. Sales 315000
less c.o.g.s 187000
g. profit 127800

8. **10 points 8 min.**

Logan Emporium uses a periodic inventory system. At the end of 2008, the accounting records include the following information:

a- c.o.g.s. 187000
Beg. 20000
180000
less end 12900
187000

Inventory, December 31, 2007	$ 20,100
Inventory, December 31, 2008	$ 12,900
Net sales	$315,000
Purchases	$ 180,000

Instructions:

a. Create COGS using step one in the closing procedure.
b. Calculate gross profit.

9. **5 points 3 min.**

Melody Land uses a perpetual inventory system and records purchases of merchandise at net cost. The company recently purchased 200 compact discs at an invoice price of $4,000 and terms of 2/10, n/30. Half of these discs had been mislabeled and were returned immediately to the supplier. The journal entry to record payment of this invoice after the discount period has expired will include a:

A) Debit to Inventory for $2,000.
B) Credit to Cash for $2,000.
C) Debit to an expense account for $40.
D) Credit to Cash for $1,960.

$\boxed{4000 \div \frac{1}{2}}$

10. **5 points 3 min.**

If costs of goods sold is $600,000 and its gross profit rate is 20%, what is the gross profit?

A) $150,000.
B) $ 75,000.
C) $250,000.
D) $100,000.

c.o.g.s. is 80%.

$\frac{600000}{80} = 750000$

750000 × 20% = 15000