**LEBANESE AMERICAN UNIVERSITY**

**FINANCIAL ACCOUNTING (ACC203)**

**EXAM 2, CH. 4-6**

**FALL 2013**

**NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TYPE OF QUESTION POINTS MINUTES**

**MULTIPLE CHOICE 10 15**

**PROBLEM 1 – ADJUSTING ENTRIES 25 25**

**PROBLEM 2 – FINANCIAL STATEMENTS 20 15**

**PROBLEM 3 – CLOSING ENTRIES 20 15**

**PROBLEM 3 – MERCHANDISING TRANSACTIONS**

 **25 20**

**BONUS QUESTION 5**

**TOTAL 105 90**

**MULTIPLE CHOICE (1 POINT EACH, 10 POINTS IN TOTAL)**

1. Sales revenue is recognized in the period in which:
A. Merchandise is delivered to the customer.
B. The customer orders the merchandise.
C. Cash payment is received by the seller.
D. Purchases are made to replace the merchandise sold.

2. Which account listed below is classified as a contra-revenue account?
A. Cost of Goods Sold.
B. Gross profit.
C. Sales Discounts.
D. Purchases.

 3. Income Summary appears on which financial statement:
A. Income statement.
B. Balance sheet.
C. Retained Earnings statement.
D. Income summary does not appear on any financial statement.

4. The Cost of Goods Sold account is closed by:
A. Debiting Cost of Goods Sold and crediting Income Summary.
B. Debiting Cost of Goods Sold and crediting Retained Earnings.
C. Debiting Income Summary and crediting Cost of Goods Sold.
D. Debiting Retained Earnings and crediting Cost of Goods Sold.

5. Return on equity measures:
A. Solvency.
B. Profitability.
C. Leverage.
D. All three of the above.

6. The normal order in which the financial statements are prepared is:
A. Balance sheet, income statement, statement of retained earnings.
B. Income statement, statement of retained earnings, balance sheet.
C. Income tax return, income statement, balance sheet.
D. Income statement, statement of cash flows, balance sheet.

7. In the notes to financial statements, adequate disclosure would typically not include:
A. The accounting methods in use.
B. Lawsuits pending against the business.
C. Due dates of major liabilities.
D. The optimism of the CFO regarding future profits.

8. No adjusting entry should consist of:
A. A debit to an expense and a credit to an asset.
B. A debit to an expense and a credit to revenue.
C. A debit to an expense and a credit to a liability.
D. A debit to a liability and a credit to revenue.

9. The entry to record depreciation is an example of an adjusting entry:
A. To convert an asset to expense.
B. To apportion unearned revenue.
C. To convert a liability to revenue.
D. To record unrecorded revenue.

10. Unearned revenue is:
A. An asset.
B. Income.
C. A liability.
D. An expense.

**PROBLEMS**

**1.**  **End-of-period adjustments (25 points)**

West Laboratory adjusts and closes its accounts at the end of each month. The trial balance at September 30, 2010, before adjustments, is as follows:
 
The following information relates to month end adjustments:
(a) Office supplies on hand September 30 amounted to $500.
(b) The useful life of the medical equipment was estimated to be 20 years with no residual
value.
(c) Many patients pay in advance for major medical procedures. Fees of $6,000 were earned during the month by performing procedures on patients who had paid in advance.
(d) Salaries earned by employees during the month but not yet recorded amounted to $2,300.
(e) On September 1, West Laboratory had moved and paid 2 month's rent in advance.
(f) Medical procedures performed during the month but not yet billed or recorded amounted to $4,600.

(g) The note payable is a 6-month note that has an interest rate of 9%. It was issued September 1, 2010.

(h) The company received a utility bill for $300 which has not been recorded yet.
Prepare the adjusting entries required at September 30.

**2. Preparation of financial statements (20 points)**

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

**3. Closing entries (20 points)**

An Adjusted Trial Balance for Tiger, Inc., at December 31 appears below.
 
Prepare journal entries to close the accounts. Use four entries to: (1) close the revenue account, (2) close the expense accounts, (3) close the Income Summary account, and (4) close the Dividends account.

**4. Merchandising Transactions (25 points)**

 Journal entries for merchandising transactions Shown below is a partial chart of accounts for Main Street Markets, followed by a series of merchandising transactions. The company uses a perpetual inventory system, records purchases at net cost, and records sales at the full invoice price. Sales taxes are collected on all sales, and the sales tax liability is recorded immediately. Freight charges on inbound shipments are recorded in the Transportation-in account.
 
Indicate the accounts that should be credited in recording each transaction by placing the appropriate account number(s) in the space provided.
 

**Bonus Questions (5 points)**

111. Periodic inventory system Soundview Centre uses a periodic inventory system. At the end of 2010, the accounting records include the following information:
 
Compute the following for 2010:
 