

# ACCOUNTING 201

## PRACTICE MIDTERM - (Covering Chapters 1 - 5)

### Problem - I — Multiple Choice (20 points)

1. A private organization which establishes broad accounting principles as well as specific accounting rules is the
  - a. Securities and Exchange Commission.
  - b. Internal Revenue Service.
  - c. Financial Accounting Standards Board.
  - d. Corporate Board of Directors.
2. Taco Hut pays the current month's rent, \$600. This transaction
  - a. increases revenues by \$600.
  - b. increases assets by \$600.
  - c. decreases liabilities by \$600.
  - d. decreases stockholders' equity by \$600.
3. A corporation with total stockholders' equity of \$85,000 paid a \$5,000 business debt. As a result of this transaction, total stockholders' equity
  - a. did not change.
  - b. increased by \$5,000.
  - c. decreased by \$5,000.
  - d. increased to \$90,000.
4. The right side of an account is always
  - a. the debit side.
  - b. the credit side.
  - c. the balance of that account.
  - d. carried forward to the next accounting period.
5. Posting is the process of
  - a. preparing a chart of accounts.
  - b. adding a column of figures.
  - c. transferring journal entries to ledger accounts.
  - d. recording entries in a journal.
6. Warton Company depreciates its equipment at the rate of \$500 per month. The January 31 entry to record depreciation expense would include
  - a. a debit to Equipment for \$500.
  - b. a credit to Retained Earnings for \$500.
  - c. a credit to Accumulated Depreciation for \$500.
  - d. a credit to Depreciation Expense for \$500.
7. Logan Company debited Prepaid Insurance for \$960 on July 1, 2005 for a one-year fire insurance policy. If the company prepares monthly financial statements, failure to make an adjusting entry on July 31 for the amount of insurance that has expired would cause
  - a. assets to be overstated by \$960 and expenses to be understated by \$960.
  - b. expenses to be overstated by \$80 and assets to be understated by \$80.
  - c. assets to be overstated by \$80 and expenses to be understated by \$80.
  - d. expenses to be overstated by \$960 and assets to be understated by \$960.

8. Which one of the following accounts is *not* closed at the end of an accounting period?
  - a. Common Stock
  - b. Dividends
  - c. Service Revenue
  - d. Insurance Expense
  
9. The second set of debit and credit columns on a work sheet is generally used for
  - a. closing entries.
  - b. the trial balance.
  - c. the balance sheet figures.
  - d. the adjustments.
  
10. Geronimo Company had net sales of \$400,000, cost of goods sold of \$225,000 and other operating expenses of \$100,000. The company's gross profit is
  - a. \$225,000
  - b. \$175,000
  - c. \$125,000
  - d. \$75,000

**Problem - II — Matching (10 points)**

Match the items below by entering the appropriate letter in the space.

- |                                  |  |
|----------------------------------|--|
| <p>___ 1. Partnership</p>        | <p>A. A liability created when cash is received in advance of performing a service for a customer.</p> |
| <p>___ 2. Liabilities</p>        | <p>B. The excess of net sales over cost of merchandise sold during the period</p>                      |
| <p>___ 3. Accrued expenses</p>   | <p>C. Noncurrent resources that do not have a physical substance.</p>                                  |
| <p>___ 4. General ledger</p>     | <p>D. An economic entity which is not a separate legal entity.</p>                                     |
| <p>___ 5. Matching principle</p> | <p>E. The process of allocating the cost of an asset to expense over its useful life.</p>              |
| <p>___ 6. Unearned revenues</p>  | <p>F. The matching of efforts (expenses) with accomplishments (revenues).</p>                          |
| <p>___ 7. Income summary</p>     | <p>G. Creditor's claims on total assets.</p>   |
| <p>___ 8. Intangible assets</p>  | <p>H. A temporary account used in closing revenue and expense accounts.</p>                            |
| <p>___ 9. Gross profit</p>       | <p>I. Contains all assets, liabilities, and stockholders' equity accounts.</p>                         |
| <p>___ 10. Depreciation</p>      | <p>J. Expenses incurred but not yet paid in cash or recorded</p>                                       |

**Problem - III — Adjusting Entries (15 points)**

The following information for Nelsen Company is available on June 30, 2005, the end of a monthly accounting period. You are to prepare the necessary adjusting journal entries for Nelsen Company for the month of June for each situation given. Appropriate adjusting entries had been recorded in previous months. You may omit journal entry explanations.

1. Nelsen Company purchased a 2-year insurance policy on February 1, 2005 and debited Prepaid Insurance for \$1,800.
2. On January 1, 2005, a tenant in an apartment building owned by Nelsen Company paid \$5,700 which represents six months' rent in advance. The amount received was credited to the Unearned Rent account.
3. On June 1, 2005, the balance in the Office Supplies account was \$200. During June, office supplies costing \$480 were purchased. A physical count of office supplies at June 30 revealed that there was \$240 still on hand.
4. On March 31, 2005, Nelsen Company purchased a delivery van for \$42,000. It is estimated that the annual depreciation will be \$6,000.
5. Nelsen Company has two employees who earn \$80 and \$120 per day, respectively. They are paid each Friday for a five-day work week that begins each Monday. Assume June 30 is a Wednesday in 2005.

**Problem - IV** — Closing Entries (10 points)

The end of the period account balances after adjustments of Dryer Cleaners and Laundry are as follows:

	<u>Account Balances</u> <u>(After Adjustments)</u>
Cash	\$ 9,000
Cleaning Supplies	3,500
Prepaid Rent	3,600
Equipment	128,000
Accumulated Depreciation—Equipment	20,000
Accounts Payable	8,500
Retained Earnings	6,400
Common Stock	100,000
Dividends	8,000
Dry Cleaning Revenues	25,000
Laundry Revenues	4,000
Cleaning Supplies Expense	5,000
Depreciation Expense	3,000
Rent Expense	900
Salaries Expense	2,400
Utilities Expense	500

**Instructions**

Prepare the end of the period closing entries for Dryer Cleaners and Laundry. You may omit journal entry explanations.

**Problem - V — Journal Entries (18 points)**

Prepare the necessary general journal entries for the month of May for Stringer Company for each situation given below. Stringer uses a perpetual inventory system.

- Oct. 5 Paid operating expenses as follows: \$4,000 Salaries Expense, \$2,000 Rent Expense, \$500 Utilities Expense.
- Oct. 8 Purchased merchandise for \$25,000 on account. Credit terms: 2/10, n/30.
- Oct. 12 Borrowed \$25,000 from Sun Bank signing an 8%, 6-month note.
- Oct. 15 Returned defective merchandise with a cost of \$3,500 and paid balance due for merchandise purchased on October 8. The company takes all discounts to which it is entitled.
- Oct. 20 Sold merchandise for \$20,000 to Adder Company on account. The cost of the merchandise sold was \$12,000. Credit terms: 2/10, n/30.
- Oct. 22 Purchased a 2-year insurance policy for \$4,400 cash.
- Oct. 25 Issued Credit Memo No. 3811 to Adder Company for \$2,000 for merchandise returned by Adder from the sale on October 20. The cost of the merchandise returned was \$1,025.
- Oct. 29 Purchased office equipment for \$15,000 paying \$4,000 in cash and signing a 3-month, 11% note for the remainder.

**Problem - VI** — Multiple-Step Income Statement (15 points)

Below is a partial listing of the adjusted account balances of Murray Department Store at year end on December 31, 2005.

Accounts Receivable	\$ 19,000
Cost of Goods Sold	255,000
Selling Expenses (includes depreciation)	35,000
Interest Expense	1,000
Accumulated Depreciation—Building	10,000
Sales Discounts	22,000
Merchandise Inventory	45,000
Administrative Expenses (includes depreciation)	15,000
Sales	330,000
Accounts Payable	14,000
Interest Revenue	800

**Instructions**

Using whatever data you believe appropriate, prepare a multiple-step income statement for Murray Department Store for the year ended December 31, 2005.

**Problem - VII** — Correcting Entries (12 points)

The following errors were made in journalizing and posting transactions in March in the Seal Company.

1. A \$1,700 payment for a cash purchase of a 2-year insurance policy was debited to Prepaid Insurance and credited to Accounts Payable.
2. A collection of \$4,500 on account from a customer was recorded as a debit to Cash \$4,500 and a credit to Sales Revenue \$4,500.
3. A bill for \$1,550 for new office equipment was debited to Office Supplies \$1,550 and credited to Accounts Payable \$550.
4. The receipt of \$800 from a customer for future service was recorded as a debit to Accounts Receivable \$800 and a credit to Service Revenue \$800.

**Instructions**

Prepare the correcting entries at May 31 assuming the incorrect entry is not reversed. (Omit explanations.)

**Solutions — Practice Midterm 200**

**Problem - I — Solution**

- |      |      |      |       |
|------|------|------|-------|
| 1. c | 4. b | 7. c | 10. b |
| 2. d | 5. c | 8. a |       |
| 3. a | 6. c | 9. d |       |

**Problem - II — Solution**

- |      |       |
|------|-------|
| 1. D | 6. A  |
| 2. G | 7. H  |
| 3. J | 8. C  |
| 4. I | 9. B  |
| 5. F | 10. E |

**Problem - III — Solution**

1. Insurance Expense .....	75	
Prepaid Insurance .....		75
2. Unearned Rent .....	950	
Rent Revenue .....		950
3. Office Supplies Expense .....	440	
Office Supplies .....		440
4. Depreciation Expense – Delivery Van .....	500	
Accumulated Depreciation—Delivery Van .....		500
5. Salaries Expense .....	600	
Salaries Payable .....		600

**Problem - IV — Solution**

Dry Cleaning Revenues .....	25,000	
Laundry Revenues .....	4,000	
Income Summary .....		29,000
Income Summary .....	11,800	
Cleaning Supplies Expense .....		5,000
Depreciation Expense .....		3,000
Rent Expense .....		900
Salaries Expense .....		2,400
Utilities Expense .....		500
Income Summary .....	17,200	
Retained Earnings .....		17,200
Retained Earnings .....	8,000	
Dividends .....		8,000

**Problem - V — Solution**

Oct. 5	Salaries Expense .....	4,000	
	Rent Expense .....	2,000	
	Utilities Expense .....	500	
	Cash .....		6,500
Oct. 8	Merchandise Inventory .....	25,000	
	Accounts Payable .....		25,000
Oct. 12	Cash .....	25,000	
	Notes Payable .....		25,000
Oct. 15	Accounts Payable .....	25,000	
	Merchandise Inventory .....		3,930
	Cash .....		21,070

Oct. 20	Accounts Receivable .....	20,000	
	Sales .....		20,000
	Cost of Goods Sold .....	12,000	
	Merchandise Inventory .....		12,000
Oct. 22	Prepaid Insurance .....	4,400	
	Cash .....		4,400
Oct. 25	Sales Returns and Allowances .....	2,000	
	Accounts Receivable .....		2,000
	Merchandise Inventory .....	1,025	
	Cost of Goods Sold .....		1,025
Oct. 29	Office Equipment .....	15,000	
	Cash .....		4,000
	Notes Payable .....		11,000

**Problem - VI — Solution**

**MURRAY DEPARTMENT STORE  
Income Statement  
For Year Ended December 31, 2005**

Sales revenues		
Sales .....	\$330,000	
Less: Sales discounts .....	<u>22,000</u>	
Net sales .....	\$308,000	
Cost of goods sold .....		<u>255,000</u>
Gross profit .....		53,000
Operating expenses		
Selling expenses .....	35,000	
Administrative expenses .....	<u>15,000</u>	
Total operating expenses .....		<u>50,000</u>
Income from operations .....		3,000
Other revenues and gains		
Interest revenue .....	800	
Other expenses and losses		
Interest expense .....	<u>1,000</u>	<u>(200)</u>
Net Income .....		<u>\$ 2,800</u>

**Problem - VII — Solution**

1. May 31	Accounts Payable.....	1,700	
	Cash .....		1,700
2. 31	Sales Revenue .....	4,500	
	Accounts Receivable .....		4,500
3. 31	Office Equipment .....	1,550	
	Office Supplies .....		1,550
	Accounts Payable .....		1,000
4. 31	Cash .....	800	
	Service Revenue .....	800	
	Unearned Revenue .....		800
	Accounts Receivable .....		800

Note: No explanations either before or after entries.