MIDTERM EXAM Accounting 211

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Section\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

PART 1 Chapter 2

1- Leonard Matson completed these transactions during December of the current year: (5 points)

 

 Prepare general journal entries to record these transactions.

2- Maria Sanchez began business as Sanchez Law Firm on November 1. Record the following November transactions by making entries directly to the T-accounts provided. Then, prepare a trial balance, as of November 30. (15- points)

 a) Sanchez invested $15,000 cash and a law library valued at $6,000.

 b) Purchased $7,500 of office equipment from Johnson Bros. on credit.

 c) Completed legal work for a client and received $1,500 cash in full payment.

 d) Paid Johnson Bros. $3,500 cash in partial settlement of the amount owed.

 e) Completed $4,000 of legal work for a client on credit.

 f) Sanchez withdrew $2,000 cash for personal use.

 g) Received $2,500 cash as partial payment for the legal work completed for the client in (*e*).

 h) Paid $2,500 cash for the legal secretary's salary.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | M. Sanchez,  |
|  | Cash |  | Office Equipment |  | Withdrawals |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Accounts Receivable |  | Accounts Payable |  | Legal Fees Earned |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Law Library |  | M. Sanchez, Capital |  | Salaries Expense |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

PART 2 Chapter 3

3- Prepare general journal entries on December 31 to record the following unrelated year-end adjustments. (10 points)

 a. Estimated depreciation on office equipment for the year, $4,000.

 b. The Prepaid Insurance account has a $3,680 debit balance before adjustment. An examination of insurance policies shows $950 of insurance expired.

 c. The Prepaid Insurance account has a $2,400 debit balance before adjustment. An examination of insurance policies shows $600 of unexpired insurance.

 d. The company has three office employees who each earn $100 per day for a five-day workweek that ends on Friday. The employees were paid on Friday, December 26, and have worked full days on Monday, Tuesday, and Wednesday, December 29, 30, and 31.

 e. On November 1, the company received 6 months' rent in advance from a tenant whose rent is $700 per month. The $4,200 was credited to the Unearned Rent account.

 f. The company collects rent monthly from its tenants. One tenant whose rent is $750 per month has not paid his rent for December.

4- The following unadjusted and adjusted trial balances were taken from the current year's accounting system for High Point. (10 points)

|  |  |
| --- | --- |
| High PointTrial BalancesFor Year Ended December 31 |  |
|  | UnadjustedTrial Balance | Adjusted Trial Balance |  |
|  | Debit | Credit | Debit | Credit |  |
| Cash  | 11,300 |  | 11,300 |  |  |
| Accounts receivable  | 16,340 |  | 17,140 |  |  |
| Office supplies  | 1,045 |  | 645 |  |  |
| Prepaid advertising  | 1,100 |  | 450 |  |  |
| Building  | 26,700 |  | 26,700 |  |  |
| Accumulated depreciation–Building  |  | 1,300 |  | 6,300 |  |
| Accounts payable  |  | 3,320 |  | 3,500 |  |
| Unearned services revenue  |  | 4,410 |  | 3,010 |  |
| D. Ruiz, Capital  |  | 17,905 |  | 17,905 |  |
| Services revenue  |  | 72,400 |  | 74,600 |  |
| Salaries expense  | 34,500 |  | 34,500 |  |  |
| Utilities expense  | 5,450 |  | 5,630 |  |  |
| Advertising expense  | 2,900 |  | 3,550 |  |  |
| Supplies expense  |  |  | 400 |  |  |
| Depreciation expense– building  | \_\_\_\_\_ | \_\_\_\_\_ |  5,000 | \_\_\_\_\_\_ |  |
| Totals  | 99,335 | 99,335 | 105,315 | 105,315 |  |
|  |  |  |  |  |  |

 In general journal form, present the six adjusting entries that explain the changes in the account balances from the unadjusted to the adjusted trial balance. Answer:

PART 3-Chapter 4

5- The calendar year-end adjusted trial balance for Acosta Co. follows: (10 Points)

|  |
| --- |
| ACOSTA CO.Adjusted Trial BalanceDecember 31 |
| Cash  | $ 100,000 |  |
| Accounts receivable  | 7,000 |  |
| Prepaid rent  | 15,000 |  |
| Prepaid Insurance  | 9,000 |  |
| Office supplies  | 3,300 |  |
| Office equipment  | 8,000 |  |
| Accumulated depreciation–Equipment  |  | $ 3,200 |
| Building  | 350,000 |  |
| Accumulated depreciation–Building  |  | 42,000 |
| Land  | 700,000 |  |
| Accounts payable  |  | 5,800 |
| Salaries payable  |  | 14,500 |
| Interest payable  |  | 2,500 |
| Long-term note payable  |  | 52,000 |
| Margarita Acosta, Capital  |  | 1,010,000 |
| Margarita Acosta, Withdrawals  | 200,500 |  |
| Service fees earned  |  | 370,800 |
| Salaries expense  | 90,000 |  |
| Insurance expense  | 5,200 |  |
| Rent expense  | 5,000 |  |
| Depreciation expense–Equipment  | 800 |  |
| Depreciation expense–Building  |  7,000 | \_\_\_\_\_\_\_\_\_ |
| Totals  | $1,500,800 | $1,500,800 |
|  |  |  |

 Required:

 (a) Prepare a classified year-end balance sheet. (Note: A $7,000 installment on the long-term note payable is due within one year.)

 (b) Calculate the current ratio.

6- The adjusted trial balance of E. Pace, Consultant is entered on the partial work sheet below. Complete the work sheet using the following information: (10 points)

 (a) Salaries earned by employees that are unpaid and unrecorded, $500.

 (b) An inventory of supplies showed $800 of unused supplies still on hand.

 (c) Depreciation on equipment, $1,300.

|  |
| --- |
| E. Pace, ConsultingWork SheetFor the year ended December 31 |
| Account | Unadjusted Trial Balance | Adjustments | Adjusted Trial Balance | Income Statement | Balance Sheet and Statement of Owner’s Equity |
|  | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit |
| Cash  | $14,000 |  |  |  |  |  |  |  |  |  |
| Supplies  | 1,000 |  |  |  |  |  |  |  |  |  |
| Equipment  | 11,000 |  |  |  |  |  |  |  |  |  |
| Accum. Depr. – Equip.  |  | $ 2,000 |  |  |  |  |  |  |  |  |
| Accounts payable  |  | 500 |  |  |  |  |  |  |  |  |
| Salaries payable  |  |  |  |  |  |  |  |  |  |  |
| E. Pace, capital  |  | 6,500 |  |  |  |  |  |  |  |  |
| E. Pace, withdrawals  | 1,500 |  |  |  |  |  |  |  |  |  |
| Fees earned  |  | 30,000 |  |  |  |  |  |  |  |  |
| Salary expense  | 7,500 |  |  |  |  |  |  |  |  |  |
| Rent expense  | 4,000 |  |  |  |  |  |  |  |  |  |
| Supplies expense  |  |  |  |  |  |  |  |  |  |  |
| Depreciation expense  | \_\_\_\_\_\_ | \_\_\_\_\_\_ |  |  |  |  |  |  |  |  |
| Totals  | $39,000 | $39,000 |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

 PART 4 Chapter 5.

7- Ceres Computer Sales uses the perpetual inventory system and had the following transactions during December (10 Points)

 

 Required:

 Prepare the general journal entries to record these transactions.

8- Maia's Bike Shop uses the perpetual inventory system and had the following transactions during the month of May: (10 points)

 

 Prepare the required journal entries that Maia's Bike Shop must make to record these transactions.

PART 5 Chapter 6

9- Evaluate each inventory error separately and determine whether it overstates or understates cost of goods sold and net income. (10 points)

|  |  |  |  |
| --- | --- | --- | --- |
| **Inventory error:** | **Cost of goods sold is:** |  | **Net income is:** |
| Understatement of beginning inventory  |  |  |  |
| Understatement of ending inventory  |  |  |  |
| Overstatement of beginning inventory  |  |  |  |
| Overstatement of ending inventory  |  |  |  |

Answer:

10- Monitor Company uses the LIFO method for valuing its ending inventory. The following financial statement information is available for its first year of operation:

|  |
| --- |
| Monitor CompanyIncome StatementFor the year ended December 31 |
| Sales  | $50,000 |
| Cost of goods sold  |  23,000 |
| Gross profit  | $27,000 |
| Expenses  |  13,000 |
| Income before taxes  | $14,000 |

 Monitor's ending inventory using the LIFO method was $8,200. Monitor's accountant determined that had the company used FIFO, the ending inventory would have been $8,500.

 a. Determine what the income before taxes would have been, had Monitor used the FIFO method of inventory valuation instead of LIFO.

 b. What would be the difference in income taxes between LIFO and FIFO, assuming a 30% tax rate?