

ACCT1030 - MIDTERM EXAM WINTER 2019

Version 1

You are required to read the following before commencing with the test.

Sections	Type	# of Questions	Marks	Student Mark
Part I	Multiple Choice	28	28	
Part II	Journal Entries	15	30	
Part III	Worksheet - Adjustments	5	20	
Part IV	Closing Entries	1	12	
Part V	Formal Financial Statements	3	15	
TOTAL			105	

Important: For all journal entries explanations are not required.

All answers are to be recorded in this booklet

The instructor, if required, will provide additional sheets

Total Time: 105 minutes

Name:	Section:
Student No:	

Check to ensure you have a complete booklet (V Parts and 13 pages total- including this cover sheet)

Only a BA II Plus Calculator may be used

Part I Multiple Choice (28 marks)

Circle the letter of the correct answer

- 1) Which of the following represents the correct form of the accounting equation?
 - a) $\text{Assets} + \text{Net Worth} = \text{Liabilities}$
 - b) $\text{Assets} = \text{Liabilities} - \text{Net Worth}$
 - c) $\text{Assets} + \text{Liabilities} = \text{Net Worth}$
 - d) $\text{Assets} = \text{Liabilities} + \text{Net Worth}$

- 2) Unearned revenue is classified as:
 - a) a liability
 - b) an asset
 - c) an expense
 - d) revenue

- 3) FUN Cruise Inc. prepaid \$6,000 for 3 months rent on July 1, 2016. What would be the balance of the Prepaid Rent account on August 1, 2016?
 - a) \$2,000
 - b) \$3,000
 - c) \$0
 - d) \$4,000

- 4) A transit company sells tickets to its patrons for travel at a later date. The amount received when the tickets are sold should be treated as:
 - a) accounts payable
 - b) earned revenue
 - c) refundable deposits
 - d) unearned revenue

- 5) Reducing the principal portion of an automobile loan:
 - a) involves decreasing an asset and decreasing a liability
 - b) involves increasing an asset and increasing a liability
 - c) involves decreasing an asset and increasing a liability
 - d) involves increasing an asset and decreasing a liability

- 6) If you buy a car, over what period is it likely to depreciate?
 - a) It will depreciate over the expected useful life of the car
 - b) The car is unlikely to depreciate in value
 - c) The value will not depreciate until you sell it
 - d) It should be depreciated in full as soon as you buy it

- 7) A typical accounting adjustment could be:
 - a) recognizing prepaid expenses
 - b) recognizing earned revenue
 - c) recognizing depreciation
 - d) all of the choices

8) After closing revenues and expenses, but before closing the income summary account a successful company would show a:

- a) credit balance in the income summary account
- b) debit balance in the owner's equity account
- c) zero balance in the income summary account
- d) debit balance in the income summary account

9) The Statement of Owner's Equity :

- a) reports any changes in equity over the reporting period
- b) is used to calculate ending Owners' equity so that it can be transferred to the income statement
- c) reflects increases due to losses and decreases due to profits
- d) is used to determine the sources and uses of cash

10) The concept of depreciation is best explained by which accounting principle?

- a) Revenue Recognition
- b) Measurement
- c) Consistency
- d) Expense Recognition

11) Which of the following forms of organizations has limited liability for all of its owners?

- a) Corporation
- b) Limited Partnership
- c) Proprietorship
- d) Partnership

12) Which fundamental characteristic of GAAP requires that information is free from material error and bias?

- a) Relevance
- b) Comparability
- c) Understandability
- d) Reliability

13) Entries are recorded in the journal:

- a) in the order of account numbers used
- b) alphabetically
- c) chronologically (by date)
- d) randomly

14) Which of the following is the correct journal entry to record the prepayment of an insurance premium?

- a) Increase prepaid insurance and decrease cash
- b) Increase insurance expense and decrease cash
- c) Increase cash and decrease insurance expense
- d) Increase cash and decrease prepaid insurance

15) When a business performs services for a customer who will pay later, which of the following of the business' accounts are increased?

- a) Accounts Receivable
- b) Accounts Payable
- c) Unearned Revenue
- d) None of the choices

16) A service company has total liabilities of \$200,000. Its non-current liabilities are worth \$110,000 and interest payable amounts to \$40,000. Current liabilities are:

- a) \$90,000
- b) \$200,000
- c) \$40,000
- d) \$160,000

17) Non-current assets :

- a) are not expected to turn into cash within the next 12 months
- b) Property, plant and equipment (PPE) is not considered a non-current asset
- c) are those assets which are likely to be converted into cash within 12 months
- d) are not used to operate a business

18) A company has total assets of \$100,000. Its non-current assets are worth \$60,000 and prepaid expenses are \$20,000. Current assets amount to:

- a) \$40,000
- b) \$160,000
- c) \$100,000
- d) \$20,000

19) Which of the following is FALSE regarding the accounting cycle?

- a) The post-closing trial balance contains only balance sheet accounts
- b) Adjusting entries occur before closing entries
- c) The first step is to record transactions in the journal
- d) Account balances are taken from the trial balance and posted to the general ledger

20) Crediting income statement balances is part of the closing entry to:

- a) close revenue accounts for the year
- b) close the drawings account for the year
- c) close expense accounts for the year
- d) transfer revenue balances to cash

21) Which one of the following statements is true?

- a) Net worth could be unaffected when selling assets
- b) A prepaid expense is an expense
- c) If revenue goes up by \$2,000 and expenses go up by \$1,500, net worth goes down by \$500
- d) Earning revenue means increasing cash

- 22) Which of the following terms can refer to the Net Worth of a business?
- a) Owner's Equity
 - b) Bondholder's Account
 - c) Owner's Equality
 - d) Capital Asset
- 23) One of the roles of a professional accountant would be:
- a) to only prepare payroll each month for the bookkeeper
 - b) to use information prepared by the bookkeeper to provide appropriate accounting adjustments
 - c) to prepare income statements only on a month to month basis
 - d) to do the bank reconciliations only
- 24) Which fundamental characteristic of requires that financial statements are prepared in a similar way year after year?
- a) Relevance
 - b) Reliability
 - c) Understandability
 - d) Comparability
- 25) When an accountant serves the needs of internal users, generally works for one organization, and prepares specialized reports to assist in decision making, that accountant is engaged in:
- a) public accounting
 - b) managerial accounting
 - c) consulting
 - d) none of the choices
- 26) When prepaid rent is recognized as an expense, which of the following is true?
- a) Cash decreases and equity decreases
 - b) Prepaid rent decrease, rent expense on the balance sheet increases and equity decreases
 - c) Prepaid rent decrease, rent expense on the income statement increases and equity decreases
 - d) Prepaid rent decrease, rent expense on the income statement increases and equity increases
- 27) Your monthly payment to the bank is \$1,000, interest being \$950 and principal \$50. After each payment is made, which of the following is true?
- a) Net worth decreases by \$950
 - b) Decrease cash by \$950, increase debt by \$50
 - c) Decrease cash by \$1000, decrease net worth by \$1000
 - d) Decrease cash by \$1000, increase net worth by \$50
- 28) After posting the closing entries, a company must prepare a[n]:
- a) unadjusted trial balance
 - b) adjusted trial balance
 - c) posting trial balance
 - d) post-closing trial balance

Part III Worksheet - Adjustments

(20 marks)

Below, is SITA Services' unadjusted trial balance at the end of December 2017. No adjusting entries have been made for the year as yet. **Required:** Use the trial balance and the information below to complete the worksheet. The worksheet is the last page of the exam booklet and may be removed.

Dec 31	A physical count showed that \$2,480 of supplies are still on hand
Dec 31	Of the balance of unearned revenue, \$1,260 has been earned
Dec 31	The property, plant and equipment was purchased at the beginning of 2015 and is expected to last 10 years with no residual value
Dec 31	The amount in prepaid insurance is for an annual policy that was paid on September 1, 2017
Dec 31	Accrued \$450 interest on the bank loan

Part IV Closing Entries (12 marks)

ESpeed Company has journalized their adjusting entries and prepared their adjusted trial balance. Using the adjusted trial balance, prepare the closing entries using the income summary account for the month of August.

ESpeed Company Adjusted Trial Balance August 31, 2017		
Account Titles	DR	CR
Cash	\$15,000	
Accounts Receivable	\$1,200	
Prepaid Insurance	\$2,850	
Office Supplies	\$880	
Equipment	\$14,000	
Accumulated Depreciation		\$800
Accounts Payable		\$1,500
Interest Payable		\$700
Unearned Revenue		\$4,120
Bank Loan		\$3,000
Shiny, Capital		\$20,940
Shiny, Drawings	\$450	
Service Revenue		\$5,200
Depreciation Expense	\$200	
Insurance Expense	\$350	
Interest Expense	\$200	
Rent Expense	\$700	
Telephone Expense	\$430	
Total	\$36,260	\$36,260

