

ACCT130  
Midterm Forms

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FACULTY OF BUSINESS AND ECONOMICS  
ACCOUNTING DEPARTMENT

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MIDTERM EXAM

ACCT.130

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Section #: 1

Question # 4	Answer	Question # 5	Answer	Question # 6	Answer
1	C ✓	1	A ✓	1	C ✓
2	G ✓	2	E ✓	2	<del>B</del> → D ✓
3	B ✓	3	D ✓	3	C ✓
4	H ✓	4	G ✓	4	C ✓
5	F ✓	5	A ✓	5	B ✓
6	A ✓	6	A ✓	6	<del>B</del> → D ✓
7	E ✓	7	C ✓	7	B ✓
8	D ✓	8	E ✓	8	<del>B</del> → A ✓
		9	F ✓	9	C ✓
		10	A ✓	10	C ✓
		11	B ✓	11	C ✓
		12	A ✓	12	<del>B</del> → A ✓
				13	<del>B</del> → D ✓
				14	<del>B</del> → D ✓
				15	<del>B</del> → A ✓

4/1

6/1

15/1

**Question # 1 ( 20 points )**

The ledger accounts given below, with an identification number for each, are used by Young Company.

**Instructions:** Indicate the appropriate entries for the month of May by placing the appropriate identification number(s) in the debit and credit columns provided. Item 0 is given as an example. Write "none" if no entry is appropriate.

- |                        |                               |                              |
|------------------------|-------------------------------|------------------------------|
| 1. Owner's Capital     | 7. Salaries and Wages Payable | 13. Owner's Drawing          |
| 2. Accounts Payable    | 8. Accounts Receivable        | 14. Equipment Expense        |
| 3. Supplies Expense    | 9. Salaries and Wages Expense | 15. Advertising Expense      |
| 4. Prepaid Insurance   | 10. Notes Payable             | 16. Rent Expense             |
| 5. Prepaid Advertising | 11. Cash                      | 17. Supplies                 |
| 6. Equipment           | 12. Service Revenue           | 18. Unearned Service Revenue |

ENTRY NO.	Date	Account(s) Entry Information	Account(s) Debited	Account(s) Credited	
0	May 1	Owner Steve Young invested \$40,000 cash in the business.	11	1	
1	May 4	Equipment was purchased at a cost of \$7,000; a three-month, 10% note payable was signed for this amount.	6	<del>10</del>	equipment note payable
2	May 5	Paid \$1,500 cash to settle an account to a supplier.	2	11	account payable cash
3	May 10	Purchased supplies for \$2,500 cash. The supplies are expected to last until July.	17	11	supplies cash
4	<del>May 14</del>	Paid \$300 cash to the Times Daily Newspaper for advertisements run this past week.	15	11	adv. expense cash
5	May 16	Billed customers \$8,000 for services performed. Customers are to pay later in 2 weeks.	8	12	account R service Rev.
6	May 19	Performed services for customers, and received cash in return..	11	12	service Rev. cash
7	May 26	Received \$11,000 cash from customers for services to be performed later in June.	11	18	cash unearned.
8	May 27	Paid City News \$300 cash, for an advertisement that will run the first week in June.	<del>15</del>	11	Prepaid adv. cash
9	May 28	Received \$4,000 cash, on account from customers.	11	8	cash acc R
10	May 30	Owner Steve Young withdrew \$500 cash for personal use.	13	11	drawings cash

20 <sup>2</sup>

**Question # 2 ( 15 points ):**

The ledger accounts given below, with an identification number for each, are used by Sun Cleaning.

**Instructions:** Prepare appropriate adjusting entries for the year ended December 31, 2017, by replacing the appropriate identification number(s) in the debit and credit columns provided and the dollar amount in the adjoining column. Item 0 is given as an example.

- |  |                                     |
|--|-------------------------------------|
| 1. Service Revenue                     | 10. Cash                            |
| 2. Accounts Receivable                 | 11. Notes Payable                   |
| 3. Interest Receivable                 | 12. Interest Revenue                |
| 4. Supplies Expense                    | 13. Unearned Service Revenue        |
| 5. Insurance Expense                   | 14. Salaries and Wages Expense      |
| 6. Equipment                           | 15. Depreciation Expense —Equipment |
| 7. Accumulated Depreciation —Equipment | 16. Interest Payable                |
| 8. Salaries and Wages Payable          | 17. Prepaid Insurance               |
| 9. Interest Expense                    | 18. Supplies                        |

ENTRY NO.	Account(s) Entry Information	Account(s) Debited	Account(s) Credited	Amount \$
0	Interest of \$300 is accrued on a note receivable at December 31, 2017.	3	12	300
1 <i>Unearned Service Revenue</i>	A customer paid Sun Cleaning \$16,000 on December 1, 2017, for services to be performed in the coming 2 months. The receipt was credited to a liability account. On Dec.31, 2017, half these services were performed.	<del>13</del> ✓	<del>1</del> ✓	8000 ✓
2 <i>Accrued Expense</i>	Sun has two employees who each earn \$110 per day. At December 31, 2017, four days' salaries have been earned but not paid.	14 ✓	8 ✓	880 ✓
3 <i>Depreciation</i>	Sun purchased equipment costing \$28,000 on January 1, 2016. Monthly depreciation is \$400.	15 ✓	7 ✓	4800 ✓
4 <i>Accrued Expense</i>	Sun borrowed \$8,000 by signing a three-month, 6% interest, note payable on November 1, 2017.	9 ✓	16 ✓	<del>8000</del> ✓
5 <i>Prepaid Supplies Expense</i>	Sun started the year with no supplies on hand. Sun purchased \$4,000 in supplies during the year and has \$1,800 on hand at December 31. Supplies were debited to an asset account when purchased.	4 ✓	18 ✓	2200 ✓

**QUESTION # 3 ( 10 Points)**

The adjusted trial balance of Sara's Laundry follows:

Sara's Laundry  
Adjusted Trial Balance  
December 31, 2015

✓ Cash	\$ 1,170	
✓ Laundry supplies	1,930	
✓ Prepaid insurance	600	
✓ Laundry equipment	20,600	
✓ Accumulated depreciation, laundry equipment		\$ 5,400
✓ Accounts payable		325
Sara Vergara, capital		11,125
Sara Vergara, withdrawals	4,800	
Laundry services revenue		21,720
Salaries expense	6,920	
Depreciation expense, laundry equipment	1,200	
Utilities expense	950	
Insurance expense	400	
Totals	<u>\$38,570</u>	<u>\$38,570</u>

10

1. Prepare the necessary closing entries at December 31.
2. What is the balance of Sara's capital account (ending balance), after the bookkeeper posts the closing entries?

Dr. Income Summary ~~9470~~ 9470

Cr. Salaries expense 6920  
Cr. Depreciation expense 1200  
Cr. Utilities expense 950  
Cr. Insurance expense 400

I/S	
21720	9470
12250	

Dr. Laundry Service Revenue 21720  
Cr. Income Summary 21720

I/S	
9470	21720

Dr. Income Summary 12250  
Cr. Owner's Capital 12250

12250	(credit)
-------	----------

Dr. Owner's Capital 4800  
Cr. Sara Vergara withdrawals 4800

4

ending balance (O.C) = 11125 + 12250 - 4800 = ~~18575~~  
= 18,575

**Question # 4 Matching: (4 points)**

Match the following terms with the appropriate definition.

(a) Straight-line depreciation

~~(b) Matching principle~~

~~(c) Accrued revenues~~

~~(d) Timeliness principle~~

~~(e) Accrual basis accounting~~

~~(f) Depreciation~~

~~(g) Cash basis accounting~~

~~(h) Prepaid expenses~~

- C (1) Revenues earned in a period that are both unrecorded and not yet received in cash or other assets.
- g (2) Revenues are recognized when cash is received and expenses are recorded when cash is paid.
- b (3) The broad principle that requires expenses to be reported in the same period as the revenues that were earned as a result of the expenses.
- h (4) Items paid for in advance of receiving their benefits.
- f (5) The expense created by allocating (dividing) the cost of plant and equipment over the periods in which they are used.
- a (6) Allocates equal amounts of an asset's cost to depreciation expense during its useful life.
- e (7) The approach to preparing financial statements that uses the adjusting process to recognize revenues when earned and expenses when incurred.
- d (8) A broad principle that assumes that an organization's activities can be divided into specific time periods such as months, quarters, or years.



**Question # 5 Matching: (6 points )**

Classified balance sheets commonly include the following categories.

- (a) Current assets
- (b) Investments
- (c) Property, plant and equipment
- (d) Intangible assets
- (e) Current liabilities
- (f) Long-term liabilities
- (g) Equity

Indicate the typical classification of each item listed below by placing the letter of the correct balance sheet category in the blank space next to the item.

- (1) a Account Receivable
- (2) e Wages payable
- (3) d Patents
- (4) g Margarita Acosta, capital
- (5) a Prepaid expenses
- (6) a Merchandise inventory
- (7) c Buildings used in business operations
- (8) e Account payable
- (9) f Long-term note payable
- (10) a Cash
- (11) b Land held for future plant expansion (not in use)
- (12) a Office Supplies

**QUESTION # 6 (15 points)**

1. The procedure of transferring journal entries to the ledger accounts or T-accounts is called
- journalizing.
  - analyzing.
  - posting.
  - reporting.

2. The accounting equation for Cineo Enterprises is as follows:

$$\begin{array}{r} \text{Assets} \\ \$120,000 \end{array} = \begin{array}{r} \text{Liabilities} \\ \$60,000 \end{array} + \begin{array}{r} \text{Owner's Equity} \\ \$60,000 \end{array}$$

If Cineo purchases office equipment on account for \$15,000, the accounting equation will change to

- $$\begin{array}{r} \text{Assets} \\ \$120,000 \end{array} = \begin{array}{r} \text{Liabilities} \\ \$60,000 \end{array} + \begin{array}{r} \text{Owner's Equity} \\ \$60,000 \end{array}$$
- $\$120,000 = \$60,000 + \$60,000$
  - $\$135,000 = \$60,000 + \$75,000$
  - $\$135,000 = \$67,500 + \$67,500$
  - $\$135,000 = \$75,000 + \$60,000$

3. The balance sheet is frequently referred to as
- an operating statement.
  - the statement of cash flows.
  - the statement of financial position.
  - the statement of owner's equity.

4. At the end of its first year of operations, Matlocke Company has total assets of \$2,000,000 and total liabilities of \$1,200,000. The owner originally invested \$200,000 in the business, but has not made any further investments or taken any withdrawals during the year. What is the first year's net income for Matlocke Company?

- \$ 800,000.
- \$ 3,000,000.
- \$ 600,000.
- \$ 1,000,000.

Ending OE =  
 $800,000 = 0 + 200,000 + NI - 0$

5. Which of the following items does not appear on the balance sheet?
- Cash. CA
  - Withdrawals.
  - Accounts receivable. CA
  - Accounts Payable. CA



6. If Tim Jones, the owner of Jones Hardware proprietorship, uses cash of the business to purchase a family automobile, the business should record this use of cash with an entry to:

- a. Debit Salary Expense and credit Cash.
- b. Debit Tim Jones, Salary and credit Cash.
- c. Debit Cash and credit Tim Jones, Withdrawals.
- d. Debit Tim Jones, Withdrawals and credit Cash.

7. While in the process of posting from the journal to the ledger, the accountant for X Company failed to post a \$50 debit to the Office Supplies account. The effect of this error will be as follows:

- a. The Office Supplies account balance will be overstated.
- b. The trial balance will not balance.
- c. The error will overstate the debits listed in the journal.
- d. The total debits in the trial balance will be larger than the total credits.

8. The special account used only in the closing process to temporarily hold the amounts of revenues and expenses before the net difference is added to (or subtracted from) the owner's capital account is the:

- a. Income Summary account.
- b. Closing account.
- c. Balance column account.
- d. Contra account.

9. After all appropriate closing entries to the following accounts have been made, what will be the balance in the Jay Travis, Capital account?

Service fees revenue	\$125,000
Various expenses	60,000
Jay Travis, capital	80,000
Jay Travis, withdrawals	15,000

~~125,000~~  
 $80,000 + (125,000 - 60,000) - 15,000$

- a. \$ 145,000.
- b. \$ 80,000.
- c. \$ 130,000.
- d. \$ 65,000.

10. Which of the following is the final step in the accounting cycle?

- a. Journalizing ✗
- b. Preparing an adjusted trial balance ✗
- c. Preparing a post-closing trial balance ✓
- d. Preparing the statements ✗



11. Accrued expenses are
- paid and recorded in an asset account before they are used or consumed.
  - paid and recorded in an asset account after they are used or consumed.
  - incurred but not yet paid or recorded.
  - incurred and already paid or recorded.
12. The asset section of a classified balance sheet includes:
- Current assets, long-term investments, property, plant and equipment, and intangible assets.
  - Current assets, long-term assets, equity, and intangible assets.
  - Current assets, long-term investments, property, plant and equipment, and withdrawals.
  - Current liabilities, long-term investments, property, plant and equipment, and intangible assets.
13. Unearned revenue is classified as
- an asset account.
  - a revenue account.
  - a contra-revenue account.
  - a liability account.
14. The economic entity assumption states that economic events
- of different entities can be combined if all the entities are corporations. ✗
  - must be reported to the IASB. ✗
  - of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
  - of every entity can be separately identified and accounted for, and should be separated from those of its owner or owners.
15. Accumulated Depreciation is
- a contra asset account.
  - an owner's equity account.
  - an expense account.
  - a liability account.

**GOOD LUCK**