

# University of Lethbridge



## MANAGEMENT 2100Y - MIDTERM EXAM – SPRING 2013

**INSTRUCTOR:** Steven Dyer

**STUDENT:** \_\_\_\_\_

### INSTRUCTIONS:

1. Programmable calculators are not allowed in this exam.
2. Check that there are 15 pages (including the title page).

Question	Marks Possible	Marks Obtained
Question 1	10	_____
Question 2	10	_____
Question 3	8	_____
Question 4	20	_____
Question 5	18	_____
Question 6	14	_____
Question 7	<u>15</u>	_____
Total	<u>95</u>	=====

**QUESTION 1****10 marks**

**Required: For each of the following multiple choice questions, circle the option that represents the best answer.**

1. A contra account that normally has a debit balance is
  - a. Accumulated amortization.
  - b. Wages expense.
  - c. Sales returns and allowances.
  - d. Purchase returns and allowances.
  
2. A payment of accounts payable would
  - a. Decrease assets and decrease owner's equity.
  - b. Decrease assets and increase owner's equity.
  - c. Decrease assets and increase liabilities.
  - d. Decrease assets and decrease liabilities.
  
3. A trial balance would help in detecting which of the following errors?
  - a. An error in dollar amount in posting the credit side of a journal entry.
  - b. A journal entry that is posted twice.
  - c. A transaction that is not journalized.
  - d. The posting of a debit entry to the wrong ledger account.
  
4. The ending inventory of Sloppy Company is understated by \$9,000. The effects of this error on the current year's cost of goods sold, net income, and owner's equity are (respectively)
  - a. Understated, overstated, overstated.
  - b. Overstated, understated, understated.
  - c. Understated, understated, understated.
  - d. Overstated, understated, overstated.
  
5. If the total liabilities of a business increased by \$52,000 during a year and the owner's equity in the business decreased by \$6,000 during the same period, the assets of the business must have
  - a. Increased by \$46,000.
  - b. Increased by \$58,000.
  - c. Decreased by \$6,000.
  - d. Decreased by \$46,000.
  
6. The adjusting journal entry to show that a customer's advance deposit has now been earned would affect
  - a. An asset account and an expense account.
  - b. An asset account and a revenue account.
  - c. A liability account and an expense account.
  - d. A liability account and a revenue account.

7. An income statement shows net sales of \$200,000, cost of goods sold of \$120,000, operating expenses of \$40,000, and other revenues of \$6,000. What is the profit margin?
- 17%
  - 20%
  - 23%
  - 40%
8. A company reports current assets of \$50,000, total assets of \$150,000, current liabilities of \$20,000 and total liabilities of \$100,000. Its working capital is
- 2.5 to 1
  - 40%
  - \$30,000
  - 1.5 to 1
9. The accounting records of a company that uses the perpetual inventory system show an ending inventory value of \$38,500. A physical count reveals an actual balance of \$36,800 of inventory on hand. The necessary journal entry will
- Debit the Merchandise Inventory account.
  - Credit the Merchandise Inventory account.
  - Credit the Cost of Goods Sold account.
  - Debit the Inventory Expense account.
10. Before recording adjusting journal entries, total revenues exceed total expenses by \$35,000. Adjusting entries were made to record \$3,000 in accrued wages and \$4,000 in amortization expense. Net income for the year would be
- \$28,000
  - \$34,000
  - \$35,000
  - \$36,000

**QUESTION 2****10 marks**

The following selected events occurred during October, 2007, the first month of Rose Weir's real estate business.

1. The owner, Rose Weir, invests \$30,000 in cash and a computer worth \$5,000 to start a real estate business operating as a sole proprietorship.
2. Hired an office assistant at a salary of \$12 per hour to start work immediately.
3. Billed clients for real estate commission fees totalling \$4,000.
4. Paid \$1,260 in office salaries.
5. Received a cheque for \$2,000 from a client in payment on account for commissions billed in transaction 3.

**Required: Prepare journal entries to record these transactions. Identify each transaction by number. If no entry is required, write "no entry". Omit explanations.**

**QUESTION 3****8 marks**

The income statement of Joe's Shoe Repair is as follows:

JOE'S SHOE REPAIR		
Income Statement		
Month Ended April 30, 2012		
Revenue		
Computer Repair Revenue .....		\$17,000
Expenses		
Salaries Expense .....	\$3,400	
Amortization Expense.....	350	
Utilities Expense .....	1,400	
Rent Expense .....	600	
Supplies Expense .....	<u>1,050</u>	
Total Expenses .....		<u>6,800</u>
Net Income .....		<u>\$10,200</u>

On April 1, the balance in Joe's Capital account was \$11,200. During April, Joe withdrew \$8,200 cash for personal use.

**Required: Prepare closing entries at April 30.**

**QUESTION 4****20 marks****Instructions:**

The adjusted trial balance of Jim Smith's Law Practice appears below. **Using this information, prepare for the month ending December 31:**

- (a) **An income statement. (5 marks)**
- (b) **A statement of owner's equity. (5 marks)**
- (c) **A classified balance sheet. (10 marks)**

JIM SMITH'S LAW PRACTICE  
Adjusted Trial Balance  
December 31, 2012

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 6,400	
Accounts receivable .....	1,200	
Office supplies .....	1,800	
Office equipment .....	8,000	
Accumulated amortization – office equipment .....		\$ 2,500
Computer equipment.....	6,000	
Accumulated amortization – computer equipment .....		1,500
Accounts payable .....		6,000
Unearned fee revenue .....		3,000
J. Smith, capital .....		12,400
J. Smith, drawings .....	2,500	
Fees earned .....		5,500
Office supplies expense .....	600	
Amortization expense .....	2,500	
Rent expense .....	1,900	
	<u>\$30,900</u>	<u>\$30,900</u>







**QUESTION 5****18 marks**

Listed below are the transactions for March 2008, the first month of operations of Debbie's Bookkeeping Services, owned and operated by Debbie Reynolds. **If no entry is required, say "no entry".**

March 1	Debbie invested \$5,000 in the business, which was comprised of \$3,500 in cash plus equipment valued at \$1,500.
March 3	Paid rent of \$400 for one month's rent.
March 4	Purchases supplies on account for \$125
March 12	Purchased a used van for \$6,000, paying cash of \$1,000 and signing a 1 year, 6% note payable for the balance.
March 15	Completed services for clients. Of the services completed, \$350 was paid in cash, and the remainder, \$500 was on account.
March 18	Paid telephone expense of \$60.
March 26	Received a utility bill for March of \$110.
March 27	Collected \$250 of the accounts receivable balance.
March 29	Billed clients for \$400 in services.
March 30	Paid an assistant \$225 in wages.
March 31	Debbie Reynolds withdrew \$500 for personal use.

**Required:**

**(a) Journalize the transactions. If no entry is required, say "no entry". Omit the description. (12 marks)**

**(b) Prepare a trial balance. (6 marks)**





## QUESTION 6

14 marks

The following procedures are used by Vivid Renovations in handling the cash disbursements. The individuals involved in the cheque preparation and disbursement process are John, the Accounts Payable clerk who reports to the Controller, and Mary, the Office Manager.

1. When purchase invoices are received, Mary approves them for payment. After they are approved John records the purchase invoices in the Accounts Payable sub ledger and then files them in an “unpaid invoices” file. Once or twice a week, John scans through the file and decides which invoices should be paid.
2. John prepares the cheques manually. He enters cheque numbers on the cheques which are not pre-numbered.
3. The unsigned cheques are put into Mary’s ‘In Box’ to be signed.
4. Mary does not feel she needs to see the invoices again when she signs the cheques so only the cheques are given to her.
5. Mary is often out of the office on construction projects, but she tries to make sure that she signs the cheques within two or three days.
6. After she has signed the cheques, Mary returns them to John for mailing. After John has mailed the cheques, he files the paid invoices in the vendor invoice files.
7. Once every three months, John prepares bank reconciliation.

**Required: For each procedure, describe the weakness, describe what could go wrong, and using the information in the case, recommend an internal control to correct the weakness.**



**QUESTION 7****15 marks**

Melody Lane Co. provides music lessons to many clients across the city. The following information is available to be used in recording annual adjusting entries at the company's September 30, 2012, year-end:

1. On October 1, 2011, the company had a balance of \$2,000 in its supplies account. Additional supplies were purchased during the year totaling \$1,800. The supplies inventory on September 30, 2012, amounts to \$750.
2. On July 15, 2012, the company paid \$9,000 to Pinnacle Holdings to rent additional studio space for nine months starting August 1. Melody Lane recorded the full payment as Prepaid Rent.
3. On June 1, 2012, a client paid \$1,500 for six months of lessons starting June 1, 2012. Melody Lane recorded this cash receipt as Unearned Revenue.
4. On March 1, 2012, Melody Lane purchased a grand piano (to be used in music lessons) for \$ 24,000. The estimated useful life of the piano is 15 years.
5. Services to a local church group for \$1,500 were provided on September 28, 2012. Melody Lane has not yet invoiced the group nor recorded the transaction.
6. On September 1, 2012, Melody Lane signed a contract with a neighborhood school to provide weekly piano lessons to some of its students for a fee of \$2,000 per month. The contract calls for lessons to commence on October 1, 2012.
7. In early October, Melody Lane received an invoice for \$475 from the utilities company for September utilities. The amount has not yet been recorded nor paid.
8. Melody Lane's instructors have earned wages of \$ 2,900 for the last week of September, 2012. This amount will be paid to the instructors on the next payday – October 5, 2012.

**Required: For each of the above items, record any appropriate adjusting journal entry or entries on September 30, 2012. If no entry is required write "no entry". Omit explanations.**

