

University of Lethbridge



MANAGEMENT 2100Y - MIDTERM EXAM – SPRING 2013

QUESTION 1

12 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.
 - e. Accounts payable.

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.
 - e. Decrease liabilities and decrease owner's equity.

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
 - e. The omission of an adjusting journal entry to record the consumption of supplies

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)
- Understated, overstated, overstated.
 - Overstated, understated, understated.
 - Understated, understated, understated,
 - Overstated, understated, overstated.
 - Overstated, overstated, understated.
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
- Increased by \$46,000.
 - Increased by \$58,000.
 - Decreased by \$6,000.
 - Decreased by \$46,000.
 - Decreased by \$58,000.
6. The adjusting journal entry to show that a customer's advance deposit has now been earned would affect
- An asset account and an expense account.
 - An asset account and a revenue account.
 - A liability account and an expense account.
 - A liability account and a revenue account.
 - A revenue account and an expense 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%
 - 58%
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
 - \$50,000

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
- a. Debit the Merchandise Inventory account.
 - b. Credit the Merchandise Inventory account.
 - c. Credit the Cost of Goods Sold account.
 - d. Debit the Inventory Expense account.
 - e. All of the above.
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
- a. \$28,000
 - b. \$34,000
 - c. \$35,000
 - d. \$36,000
 - e. \$42,000

QUESTION 2 (10 marks)

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

1. The owner, Rose Wier, 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.

Question #2 - JE (10 marks)

1	Cash	30,000		1
	Computers	5,000		1
	R. Wier, capital		35,000	1
2	No entry			1
3	Accounts receivable	4,000		1
	Real estate revenue		4,000	1
4	Salaries expense	1,260		1
	Cash		1,260	1
5	Cash	2,000		1
	Accounts receivable		2,000	1

10

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 was \$11,200. During April, Joe withdrew \$8,200 cash for personal use.

Instructions:

Prepare closing entries at April 30.

Solution 3 – 8 marks

Computer Repair Revenue	17,000	
Income Summary		17,000
To close revenue to income summary.		
Income Summary	6,800	
Salaries Expense.....		3,400
Amortization Expense		350
Utilities Expense.....		1,400
Rent Expense.....		600
Supplies Expense.....		1,050
To close expenses to income summary.		
Income Summary	10,200	
Joe, Capital		10,200
To close income summary to owner’s capital.		
Joe, Capital	8,200	
Joe, Drawings		8,200
To close drawings to owner’s capital.		

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
D. Duck, capital		12,400
D. Duck, 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>

Solution 4 - 20 marks

Part (a) (5marks)

JIM SMITH'S LAW PRACTICE
Income Statement
Month Ended December 31, 2012

Revenues		
Fees earned.....		\$5,500
Expenses		
Amortization expense	\$2,500	
Rent expense	1,900	
Office supplies expense	<u>600</u>	
Total expenses.....		<u>5,000</u>
Net Income.....		<u>\$ 500</u>

Part (b) (5 marks)

JIM SMITH'S LAW PRACTICE
Statement of Owner's Equity
Month Ended December 31, 2012

J. Smith, capital, December 1	\$ 12,400
Add: Net income	<u>500</u>
.....	12,900
Less: Drawings.....	<u>(2,500)</u>
J. Smith, capital, December 31	<u>\$10,400</u>

Part (c) (10 marks)

JIM SMITH'S LAW PRACTICE
Balance Sheet
December 31, 2012

Assets

Cash		\$ 6,400
Accounts receivable		1,200
Office supplies		1,800
Office equipment	\$8,000	
Less: Accumulated amortization	<u>2,500</u>	5,500
Computer equipment	\$ 6,000	
Less Accumulated amortization	1,500.....	4,500
Total assets.....		<u>10,000</u>
		<u>\$19,400</u>

Liabilities and Owner's Equity

Liabilities

Accounts payable	\$6,000	
Unearned fee revenue	<u>3,000</u>	
Total liabilities		\$ 9,000

Owner's Equity

J. Smith, capital.....		<u>10,400</u>
Total liabilities and owner's equity		<u>\$19,400</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.

- 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.

Instructions:

- (a) **Journalize the transactions – omit the description.**
- (b) **Prepare a trial balance.**

Solution 5 - 18 marks

Part (a) (12 marks)

Mar 1	Cash		3,500	
	Equipment		1,500	
		D. Reynolds, Capital		5,000
				5,000
Mar 3	Rent Expense		400	
	Cash			400
Mar 4	Supplies		125	
		Accounts Payable		125
Mar 12	Automobile		6,000	
	Cash			1,000
	Note Payable			5,000

Mar 15	Cash	350	
	Accounts Receivable	500	
	Service Revenue		850
Mar 18	Telephone Expense	60	
	Cash		60
Mar 26	Utilities Expense	110	
	Accounts Payable		110
Mar 27	Cash	250	
	Accounts Receivable		250
Mar 29	Accounts Receivable	400	
	Service Revenue		400
Mar 30	Wages Expense	225	
	Cash		225
Mar 31	D. Reynolds, Drawings	500	
	Cash		500

Part (b) (6 marks)

Debbie's Bookkeeping Service
Trial Balance
At March 31, 2008

	Debit	Credit
Cash	\$ 1,915	
Accounts receivable	650	
Supplies	125	
Equipment	1,500	
Automobile	6,000	
Accounts payable		\$ 235
Note payable		5,000
D. Reynolds, capital		5,000
D. Reynolds, drawings	500	
Service revenue		1,250
Rent expense	400	
Telephone expense	60	
Utilities expense	110	
Wages expense	225	
Total	\$ 11,485	\$ 11,485

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 Construction 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.

Instructions: For each procedure, describe what could go wrong as a result of the weakness described, and recommend an internal control to correct the weakness.

Solution

14 marks

The same person who records the cheques (John) should not be the person who decides which suppliers are to be paid. John could overlook important suppliers who should be paid, or prepare cheques earlier than is necessary. **Recommendation:** On a regular basis John should prepare a list of invoices due for payment and obtain Controller approval before preparing the cheques.

1. Because the cheques are not pre-numbered, it would be difficult to notice if any cheque blanks go missing. **Recommendation:** Use pre-numbered cheques and store them in a locked location.
2. The same person signs cheques and makes purchases. Therefore she could be making special deals with suppliers and no one would notice. **Recommendation:** Identify someone else in management to sign the cheques.
3. If there were differences between the invoice and the cheque Mary would not notice. **Recommendation:** The invoices should be attached to the cheques so that the person signing them can verify that amounts are correct.
4. Because the cheques are left unattended in Mary’s in box, they could be tampered with. **Recommendation:** Keep the unsigned cheque in a secure location until the person is available to sign them.
5. Because John files the invoices without marking them “paid” there is a risk of duplicate payment. **Recommendation:** The invoices should be stamped “paid” and the cheque number noted on the invoice to prevent duplicate payments.

6. Because the reconciliation is not done promptly, errors may go overlooked. Because the same person who issues the cheques prepares the reconciliation, errors or deliberate misstatements could be hidden. Recommendation: The bank reconciliation should be prepared monthly by the Controller.

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, 2007, a client paid \$1,500 for six months of lessons starting June 1, 2007. 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.

