AC111 Principles of Accounting I
Mid-term Exam Chapters 1-4

NAME:_Macy Karl_____

Multiple Choice (1pt each): Write the letter of the correct answer on the line in front of the number.

___A__ 1) Managerial accounting provides information to _____.
A) internal decision makers
B) outside investors and lenders
C) creditors
D) taxing authorities

__B___ 2) The field of accounting that focuses on providing information for external decision makers is _____.
A) managerial accounting
B) financial accounting
C) cost accounting
D) nonmonetary accounting

___A__ 3) _____ are professional accountants who serve the general public, not one particular company.

A) Certified public accountants
B) Financial managers
C) Internal auditors
D) Controllers

___A__ 4) Which of the following organizations is responsible for the creation and governance of accounting standards in the United States?
A) Financial Accounting Standards Board
B) Institute of Management Accountants
C) American Institute of Certified Public Accountants
D) Securities and Exchange Commission

__D___ 5) GAAP refers to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to _____.
A) Globally Accepted Accounting Policies
B) Government Approved Accounting Principles
C) Generally Accredited Accounting Policies
D) Generally Accepted Accounting Principles

___B__ 6) Which of the following is a characteristic of a limited-liability company (LLC)?
A) An LLC's life is terminated at any member's choice or death.
B) Each member of an LLC is liable only for his or her own actions.
C) An LLC must have more than five members.
D) The earnings of an LLC are subject to double taxation.

__D___ 7) Marcus has decided to open an auto-detailing business. He will pick up an automobile from the client, take it to his parents' garage, detail it, and return it to the client. If he does all of the work himself and takes no legal steps to form a special organization, which type of business organization, in effect, has he chosen?

A) A limited-liability company
B) A partnership
C) A corporation
D) A sole proprietorship

__C___ 8) According to the _____, acquired assets should be recorded at the amount actually paid rather than at the estimated market value.

A) going concern assumption
B) economic entity concept
C) cost principle
D) monetary unit assumption

___C__ 9) As per the _____, the entity will remain in operation for the foreseeable future.

A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle

__D___ 10) Lawton Company records business transactions in dollars and disregards changes in the value of a dollar over time. Which of the following accounting assumptions does this represent?

A) economic entity assumption
B) going concern assumption
C) accounting period assumption
D) monetary unit assumption

__A___ 11) The Sarbanes-Oxley Act (SOX) _____.

A) requires independent accountants to take responsibility for the accuracy and completeness of the financial reports
B) created the SEC
C) ensures that financial scandals will no longer occur
D) requires companies to take responsibility for the accuracy and completeness of their financial

__B___ 12) Which of the following is the correct accounting equation?

A) Assets + Liabilities = Equity
B) Assets = Liabilities + Equity
C) Assets + Revenues = Equity
D) Assets + Revenues = Liabilities + Expenses

___B__ 13) Spring Company has assets and equity that amount to $260,000 and $70,000, respectively. Liabilities total _____.

A) $70,000
B) $190,000
C) $260,000
D) $330,000

__D___ 14) The assets of Star Company are $110,000 and the total liabilities are $10,000. The equity is _____.

A) $110,000
B) $120,000
C) $10,000
D) $100,000

___C__ 15) Precision Camera Services started the year with total assets of $120,000 and total liabilities of $40,000. The company is a sole proprietorship. The revenues and the expenses for the year amounted to $140,000 and $50,000, respectively. During the year, there were no new capital contributions and the owner withdrew $45,000. What is the amount of owner's equity at the end of the year?

A) $50,000
B) $140,000
C) $125,000
D) $45,000

__B___ 16) Hollywood Talent Services is a sole proprietorship operated by Phil Morris. The net income of Hollywood Talent Services is $23,000 for the year. The beginning and ending Morris, Capital account was $33,000 and $50,000, respectively. During the year, there were no new capital contributions. Calculate the amount of the owner's withdrawals for the year.

A) $16,000
B) $6,000
C) $10,000
D) $9,000

____B_ 17) Montgomery Equipment Rental Company received $1,000 cash from a customer; the amount was owed to the business from the previous month. What is the effect of this transaction on the accounting equation?

A) Accounts Receivable increases and Service Revenue increases
B) Cash increases and Accounts Receivable decreases
C) Cash increases and Service Revenue increases
D) Cash increases and Accounts Payable decreases

___A__ 18) Newton Company settles a liability by making a payment in cash. How does paying this liability affect the accounting equation of the business?

A) assets and liabilities decrease
B) liabilities decrease and equity increases
C) assets and liabilities increase
D) assets increase and equity decreases

___C__ 19) Springer Company, a sole proprietorship, had the following transactions in August:

Earned $2,000 of revenues on account; collected $4,000 from a customer for services provided last month; incurred $800 of repair expense and paid cash; paid $500 for rent that it owed from the previous month.

What is the net income in August?

A) $800
B) $4,000
C) $5,200
D) $1,200

__A___ 20) Which of the following is the correct order of preparation of financial statements?

A) Income statement → statement of owner's equity → balance sheet → statement of cash flows
B) Statement of owner's equity → balance sheet → income statement → statement of cash flows
C) Balance sheet → statement of owner's equity → income statement → statement of cash flows
D) Balance sheet → income statement → statement of owner's equity → statement of cash flows

___A__ 21) Which of the following financial statements lists the entity's assets, liabilities, and owner's equity as of a specific date?

A) Balance sheet
B) Statement of owner's equity
C) Income statement
D) Statement of cash flows

___D__ 22) Which of the following is an asset account?

A) Wages Payable
B) Notes Payable
C) Unearned Revenue
D) Accounts Receivable

___D__ 23) Which of the following is a liability account?

A) Prepaid Advertising
B) Cash
C) Building
D) Unearned Rent

__D___ 24) Amounts earned from delivering goods or services to customers are called _____.
A) notes receivable
B) unearned revenues
C) withdrawals
D) revenues

___B__ 25) Both the chart of accounts and the ledger _____.
A) provide the balance of each account at a specific point in time
B) list the account names and numbers of the business
C) fulfill the task of showing all of the increases and decreases in each account
D) All of the statements are correct.

___D__ 26) For expenses, the category of account and its normal balance is _____.
A) equity and a credit balance
B) assets and a debit balance
C) assets and a credit balance
D) equity and a debit balance

___C__ 27) Accounts Payable is a(n) _____ account and has a normal _____ balance.
A) liability; debit
B) asset; debit
C) liability; credit
D) asset; credit

__B___ 28) The accounting process of transferring data from the journal to the ledger is called _____.
A) journalizing
B) posting
C) compounding
D) sourcing

__D___ 29) Which of the following sequences is the normal sequence of flow of accounting data?
A) Ledger → Journal → Source document
B) Journal → Source document → Ledger
C) Source document → Journal → Ledger
D) Source document → Ledger → Journal

___D__ 30) A business purchases equipment in exchange for a note payable. This transaction results in _____.
A) no journal entry because no cash has been paid
B) a debit to Notes Payable and a credit to Equipment
C) an increase in liabilities
D) a debit to Equipment and a credit to Accounts Payable

__A___ 31) A business makes a payment of $1,400 on a note payable. Which of the following journal entries would be recorded?
A) Cash is credited and Notes Payable is debited for $1,400.
B) Notes Payable is credited and Cash is debited for $1,400.
C) Cash is credited and Financing Expense is debited for $1,400.
D) Cash is debited and Financing Revenue is credited for $1,400.

___B__ 32) A business purchases equipment by paying $7,517 in cash and issuing a note payable of $19,410. Which of the following occurs?

A) Cash is credited for $7,517; Equipment is credited for $26,927, and Notes Payable is debited for $19,410.
B) Cash is credited for $7,517; Equipment is debited for $26,927, and Notes Payable is credited for $19,410.
C) Cash is debited for $7,517; Equipment is debited for $19,410, and Notes Payable is credited for $26,927.
D) Cash is debited for $7,517; Equipment is credited for $19,410, and Notes Payable is debited for $11,893.

___B__ 33) The following transactions for the month of March have been journalized and posted to the proper accounts of a sole proprietorship.

Mar. 1 The business received $10,000 cash from the owner of the business, Morris Tharps. The business gave capital to Morris Tharps.
Mar. 2 Paid the first month's rent of $1,000.
Mar. 3 Purchased equipment by paying $2,000 cash and executing a note payable for $5,000.
Mar. 4 Purchased office supplies for $710 cash.
Mar. 5 Billed a client for $9,000 of design services completed.
Mar. 6 Received $7,600 on account for the services previously recorded.

What is the balance in Cash on March 6?

A) $14,890
B) $13,890
C) $15,890
D) $15,600

___C__ 34) Watson Foods Company, a sole proprietorship, reported the following transactions for September 2019.

(a) The business received $23,000 cash from the owner in exchange for capital.
(b) The business purchased office equipment for $11,500 for which $4,000 cash was paid and the balance was put on a note payable.
(c) Paid insurance expense of $1,200 cash.
(d) Paid the September utility bill for $800 cash.
(e) Paid $1,800 cash for September rent.
(f) The business had sales of $11,000 in September. Of these sales, 60% were cash sales, and the balance was credit sales.
(g) The business paid $8,000 cash for office furniture.

What are the total liabilities at the end of September 2019?

A) $11,000
B) $1,200
C) $7,500
D) $11,500

__A___ 35) Which of the following is used by both internal and external users?

A) Chart of Accounts

B) Trial Balance
C) Balance Sheet
D) Costing Reports

___D__ 36) The following are the current month's balances for ABC Financial Services Company before preparing the trial balance.

Accounts Payable	$9,000
Revenue	5,000
Cash	2,000
Expenses	15,500
Furniture	11,000
Accounts Receivable	12,000
Miller, Capital	?
Notes Payable	6,500

What amount should be shown for Miller, Capital on the trial balance?
A) $42,000
B) $20,000
C) $15,500
D) $25,000

___B__ 37) When is a trial balance usually prepared?
A) after each entry is journalized
B) before the financial statements are prepared
C) after the financial statements are prepared
D) at the beginning of an accounting period

___B__ 38) If a company is using accrual basis accounting, when should it record revenue?
A) when cash is received, even though services may be performed at a later date
B) when services are performed, even though cash may be received at a later date
C) before services are performed
D) when cash is received, 30 days after the completion of the services

___D__ 39) At the time the transaction occurred, which of the following would result in an increase in net income under the accrual basis of accounting, but would not result in an increase in net income under cash basis accounting?

A) purchase of supplies for cash
B) performance of services on account
C) use of supplies purchased earlier
D) receipt of cash for services that were performed earlier on account

__A___ 40) The time period concept states that _____.
A) financial statements can be prepared for specific periods
B) all expenses should be recorded when they are incurred during the period
C) companies should record revenue when it has been earned
D) expenses incurred during a period should be matched against the revenues of the period

___A__ 41) Under the revenue recognition principle, a good or service is considered transferred when _____.

A) all performance obligations have been satisfied
B) the customer obtains control of the good or service
C) the business has received cash from the customer
D) the transaction price has been determined

___C__ 42) Which of the following accounting elements does the matching principle help to match?

A) revenues and liabilities
B) expenses and assets
C) expenses and revenues
D) expenses and liabilities

____D_ 43) To match expenses against revenues means to _____.

A) add expenses incurred during one period to revenues earned during that same period
B) subtract expenses incurred during one period from revenues earned during the previous period
C) add expenses incurred during one period to revenues earned during the previous period
D) subtract expenses incurred during one period from revenues earned during that same period

__B___ 44) An adjusting entry is completed _____.

A) at the beginning of the accounting period
B) at the end of the accounting period
C) after all performance obligations are satisfied
D) when accounts need to be balanced in the ledger

___B__ 45) Princeton Financial Services Company purchased computers that are to be used in its consulting services. Based on the matching principle, what account, other than Computers, should appear on the balance sheet as of December 31, 2018?

A) Depreciation Expense - Equipment
B) Service Revenue
C) Accumulated Depreciation - Equipment
D) Equipment Expense

___C__ 46) The asset account, Office Supplies had a beginning balance of $5,700. During the accounting period, office supplies were purchased, on account, for $5,100. A physical count, on the last day of the accounting period, shows $2,000 of office supplies on hand. What is the amount of Supplies Expense for the accounting period?

A) $5,100
B) $2,600
C) $8,800
D) $3,700

___B__ 47) The expected value of a depreciable asset at the end of its useful life is called _____.

A) book value
B) residual value
C) depreciation expense
D) accrued expense

___C__ 48) Oakland Tax Planning Service bought computer equipment for $24,000 on January 1, 2018. It has an estimated useful life of four years and zero residual value. Oakland uses the straight-line method to calculate depreciation and records depreciation expense in the books at the end of each month. Calculate the amount of Depreciation Expense for the period, January 1, 2018 through September 30, 2018, for this equipment. (Round any intermediate calculations to two decimal places, and your final answer to the nearest dollar.)

A) $6,000
B) $4,500
C) $6,500
D) $5,000

___A__ 49) Unearned Revenue is classified as a(n) _____ account.

A) liability
B) asset
C) revenue
D) equity

___B__ 50) Improvements, a home improvement magazine, collected $240,000 in subscription revenue on June 30. Each subscriber will receive an issue of the magazine in each of the next 12 months, beginning with the July issue. The company uses the accrual method of accounting. What is the amount of Subscription Revenue that has been earned by the end of December? (Round any intermediate calculations to two decimal places, and your final answer to the nearest whole number.)

A) $100,000
B) $140,000
C) $240,000
D) $120,000

___C__ 51) On January 1, 2017, the Accounts Receivable of Martha Company had a debit balance of $190,000. During January, the company provided services for $400,000 on account. The company collected $240,000 from its customers on account in January. What was the ending balance in the Accounts Receivable account at the end of January?

A) $160,000
B) $590,000
C) $350,000
D) $400,000

__A___ 52) The adjusted trial balance shows _____.

A) account balances after adjustments
B) revenue and expense accounts only
C) account balances before adjustments
D) balance sheet accounts only

___A__ 53) The accountant of Reliable Consulting Company failed to make an adjusting entry to record $6,000 for unearned service revenues that were earned before the end of the fiscal year. Assume the company initially recorded a liability. Which of the following statements is TRUE?

A) The total liabilities will be overstated.
B) The total liabilities will be understated.
C) The total assets will be overstated.
D) The total assets will be understated.

___A__ 54) To fill in the unadjusted trial balance columns in a worksheet, the account balances before adjustments are copied directly from the _____.

A) ledger
B) adjusted trial balance
C) chart of accounts
D) balance sheet of previous year

___B__ 55) Which financial statement is prepared last?

A) income statement
B) balance sheet
C) statement of owner's equity
D) The financial statements can be prepared in any order.

___D__ 56) The financial statements are prepared from the _____.

A) adjusted trial balance
B) chart of accounts
C) statement of owner's equity
D) unadjusted trial balance

___D__ 57) Assets that are expected to be converted to cash, sold, or used up during the next 12 months, or within the business's normal operating cycle if the cycle is longer than a year, are called _____ assets.

A) intangible
B) plant
C) long-term
D) current

__B___ 58) The time span during which cash is paid for goods and services, which are then sold to customers from whom the business collects cash, is called the _____.

A) production time
B) operating cycle
C) accounting cycle
D) sales time

___C__ 59) All assets that will not be converted to cash or used up within the business's operating cycle or one year, whichever is greater, are called _____.

A) long-term assets
B) fully depreciated assets
C) current assets
D) current liabilities

___B__ 60) Property, plant, and equipment are _____.

A) presented in order of the category name, with Land being presented last
B) also called fixed or plant assets
C) either tangible or intangible assets
D) easily converted to cash

___D__ 61) Patents, copyrights, and trademarks are examples of _____.

A) short-term investments
B) fixed assets
C) long-term investments
D) intangible assets

___C__ 62) Salaries Payable, Accounts Payable, and Unearned Revenue are examples of _____.

A) short-term investments
B) fixed assets
C) current liabilities
D) long-term liabilities

___C__ 63) An account that is NOT closed at the end of the period is called a(n) _____.

A) expense account
B) temporary account
C) permanent account
D) revenue account

___A__ 64) The entries that transfer the revenue, expense, and Owner, Withdrawals balances to the Owner, Capital account to prepare the company's books for the next period are called _____ entries.
A) closing
B) opening
C) adjusting
D) end of period

Problems (5 points for #65-68, 10 points for #69)

65) Wylie Company has just completed operations for the year ended December 31, 2018. This is the second year of operations for the company. The company is a sole proprietorship. The following data have been assembled for the business. There were no new capital contributions during the year.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Wylie, Capital, Jan. 1, 2018	17,300
Wylie, Withdrawals	13,500	Salaries Expense	36,000
Equipment	15,000	Service Revenue	84,000
Insurance Expense	4,000	Utilities Expense	6,200

Prepare the balance sheet at December 31, 2018. Use a proper heading.

Wylie Company
Balance Sheet
December 31, 2018

Assets
Cash $8,200
AR $14,500
Equipment $15,000
Total Assets $37,700

Liabilities
AP $12,200
Owners Equity
Wylie Capital $17,300
Total Liability and OE $29,500

66) Musical Instruments Company sells musical instruments. On December 31, 2019, after its first month of business, the sole proprietorship had the following balances in its accounts, listed alphabetically.

Accounts Receivable	$ 5,000
Accounts Payable	15,000
Advertising Expense	2,000
Building	16,500
Cash	87,600
Jorgensen, Capital	50,000
Jorgensen, Withdrawals	1,200
Equipment	2,000
Land	70,000
Notes Payable	60,000
Office Supplies	3,400
Prepaid Rent	1,200
Salaries Expense	4,000
Service Revenue	72,000
Utilities Expense	4,100

Determine the balance in the cash account and prepare the trial balance.

Musical Instruments Company
Trial Balance
December 31, 2019

Accounts	Debit	Credit
Cash	$87,600	
AR	5,000	
OS	3,400	
Pre Paid Rent	1,200	
Land	70,000	
Equipment	2,000	
Building	16,500	
AP		$15,000
Notes Payable		60,000
Jorgensen, Capital		50,000
Jorgensen, Withdrawal	1,200	
Service Revenue		72,000
Advertising Expense	2,000	
Salaries Expense	4,000	
Utilities Expense	4,100	
	$197,000	$197,000

67) Merian Company has just completed operations for the year ended December 31, 2018. This is the second year of operations for the company. The company is a sole proprietorship. The following data have been assembled for the business at December 31, 2018.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Merian, Capital, Jan. 1, 2018	17,300
Merian, Withdrawals	13,500	Salaries Expense	36,000
Equipment	15,000	Service Revenue	84,000
Insurance Expense	4,000	Utilities Expense	6,200

Prepare the statement of owner's equity for the year. There were no new capital contributions during the year. Use a proper heading.

Merian Company
Statement of Owners Equity
Month ended December 31,2018

Merian, Capital January 1, 2018	$17,300
Owner contribution	0
Net Income	21,700

	39,000
Merian, Withdrawal	(13,500)

	$25,500

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68) Michael Company has just completed operations for the year ended December 31, 2018. This is the second year of operations for the sole proprietorship. The following data have been assembled for the business.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Michael, Capital, Jan. 1, 2018	17,300
Michael, Withdrawals	13,500	Salaries Expense	36,000
Equipment	15,000	Service Revenue	84,000
Insurance Expense	4,000	Utilities Expense	6,200

Prepare the income statement. Use a proper heading.

Michael Company
Income Statement
Month ended December 31,2018

Revenue		
Service Revenue		$84,000
Expenses		
Insurance Expense	$15,000	
Office Expense	6,500	
Rent Expense	9,600	
Salaries Expense	36,000	
Utilities Expense	6,200	

		-73,300

		$10,700

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69) Mason's Restaurant and Catering is a sole proprietorship owned by Michael Mason. The business had the following transactions during the month of May.

May 1 Mason contributed $45,000 cash in exchange for capital.
5 Paid six months of rent on the restaurant equipment, $7,500.
12 Purchased supplies on account, $1,500.
26 Paid $30,000 cash for a delivery van.
28 Paid $1,500 on account.
29 The business received $1,600 for catering services for a wedding on June 11.
31 Revenues earned during the month included $20,500 cash and $14,500 on account.
31 Received the May utility bill for $1,000. The amount is due on June 10 and will be paid on that date.
31 Paid employees' salaries $5,500; restaurant rent $3,000 and advertising for May $800.
31 Michael Mason withdrew $6,000 cash from the business for personal use.

The business uses the following accounts: Cash; Accounts Receivable; Supplies; Prepaid Rent; Delivery Van; Accounts Payable; Unearned Revenue; Mason, Capital; Mason, Withdrawals; Service Revenue; Salaries Expense; Utilities Expense; Equipment Rent Expense; Restaurant Rent Expense; Supplies Expense; and Advertising Expense.

Required: Journalize each transaction. Explanations are not needed.

5/1	Cash	$45,000	
	Mason, Capital		$45,00
5/5	Prepaid Rent	7,500	
	Cash		7,500
5/12	Office Supplies	1,500	
	Accounts Payable		1,500
5/26	Delivery Van	30,000	
	Cash		30,000
5/28	Accounts Payable	1,500	
	Cash		1,500
5/29	Cash	1,600	
	Service Revenue		1,600
5/31	Cash	20,500	
	Accounts Receivable	14,500	
	Service Revenue		35,000
5/31	Utilities Expense	1,000	
	Cash		1,000
5/31	Salaries Expense	5,500	
	Rent Expense	3,000	
	Advertising Expense	800	
	Cash		9,300
5/31	Mason, Withdrawal	6,000	
	Cash		6,000

Bonus Problem (5 points)
Open the T-accounts for each of the accounts in the previous problem and post the journal entries to the T-accounts. Compute the balance for each account.