

ACCT 301 Intermediate Accounting I
Midterm Exam 1

Name _____

Instructions:

1. This exam consists of four sections; Section 1 is required to be completed, select any two of the remaining sections to complete a total of three sections. Do **not** answer more than three sections in total as no extra-credits will be awarded.
2. Put all your answers in the blue book provided. Start each new section on a fresh page and put the numbers of the sections you have answered on the cover of the blue book before you hand in your answers. If you choose to answer Section 4, Multiple-Choice Questions, circle your answer and transfer the question number and your answer selection to the blue book. Do not leave any answers in the question paper as these will not be graded.
3. This exam is a closed books, closed notes and individual effort test. Submit both the question paper and your blue book on completion of the exam. Budget a maximum of 25 minutes per section.

Section 1 (Required Section)

1. What are the objectives of financial reporting by business enterprises?
2. Revenue is generally recognized at the point of sale. There are three exceptions, however. Name the time for each exception, give two qualifications or criteria for the use of each exception, and give an example for each exception.
3. Why are adjusting entries necessary in an accrual accounting system?

Section 2 *This section has two parts – answer both for full credit*

Part 1

Present, in journal form, the adjustments that would be made on July 31, 2011, the end of the fiscal year, for each of the following.

1. The supplies inventory on August 1, 2010 was \$7,350. Supplies costing \$20,150 were acquired during the year and charged to the supplies inventory. A count on July 31, 2011 indicated supplies on hand of \$8,810.
2. On April 30, a ten-month, 9% note for \$20,000 was received from a customer.
3. On March 1, \$12,000 was collected as rent for one year.

Part 2

State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.

1. All payments less than \$25 are expensed as incurred. (Do not use conservatism.)
2. The company employs the same inventory valuation method from period to period.
3. A patent is capitalized and amortized over the periods benefited.
4. Assuming that dollars today will buy as much as ten years ago.
5. Rent paid in advance is recorded as prepaid rent.
6. Financial statements are prepared each year.
7. All significant post-balance sheet events are reported.
8. Personal transactions of the proprietor are distinguished from business transactions.

Section 3 *This section has two parts – answer both for full credit***Part 1**

Briefly explain the four basic assumptions that underlie financial accounting.

Part 2

Data relating to the balances of various accounts affected by adjusting or closing entries appear below. (The entries which caused the changes in the balances are not given.) You are asked to supply the missing journal entries which would logically account for the changes in the account balances.

1. Interest receivable at 1/1/10 was \$1,000. During 2010 cash received from debtors for interest on outstanding notes receivable amounted to \$5,000. The 2010 income statement showed interest revenue in the amount of \$5,400. You are to provide the missing adjusting entry that must have been made, assuming reversing entries are not made.
2. Unearned rent at 1/1/10 was \$5,300 and at 12/31/10 was \$8,000. The records indicate cash receipts from rental sources during 2010 amounted to \$40,000, all of which was credited to the Unearned Rent Account. You are to prepare the missing adjusting entry.
3. Accumulated depreciation—equipment at 1/1/10 was \$230,000. At 12/31/10 the balance of the account was \$270,000. During 2010, one piece of equipment was sold. The equipment had an original cost of \$40,000 and was 3/4 depreciated when sold. You are to prepare the missing adjusting entry.
4. Allowance for doubtful accounts on 1/1/10 was \$50,000. The balance in the allowance account on 12/31/10 after making the annual adjusting entry was \$65,000 and during 2010 bad debts written off amounted to \$30,000. You are to provide the missing adjusting entry.
5. Prepaid rent at 1/1/10 was \$9,000. During 2010 rent payments of \$120,000 were made and charged to "rent expense." The 2010 income statement shows as a general expense the item "rent expense" in the amount of \$125,000. You are to prepare the missing adjusting entry that must have been made, assuming reversing entries are not made.
6. Retained earnings at 1/1/10 was \$150,000 and at 12/31/10 it was \$210,000. During 2010, cash dividends of \$50,000 were paid and a stock dividend of \$40,000 was issued. Both dividends were properly charged to retained earnings. You are to provide the missing closing entry.

Section 4 (Multiple-Choice Questions)

1. Accrual accounting is used because
 - a. cash flows are considered less important.
 - b. it provides a better indication of ability to generate cash flows than the cash basis.
 - c. it recognizes revenues when cash is received and expenses when cash is paid.
 - d. none of the above.
2. What is the relationship between the Securities and Exchange Commission and accounting standard setting in the United States?
 - a. The SEC requires all companies listed on an exchange to submit their financial statements to the SEC.
 - b. The SEC coordinates with the AICPA in establishing accounting standards.
 - c. The SEC has a mandate to establish accounting standards for enterprises under its jurisdiction.
 - d. The SEC reviews financial statements for compliance.

3. Information about different entities and about different periods of the same entity can be prepared and presented in a similar manner. Comparability and consistency are related to which of these objectives?

	<u>Comparability</u>	<u>Consistency</u>
a.	Entities	Entities
b.	Entities	Periods
c.	Periods	Entities
d.	Periods	Periods

4. The underlying theme of the conceptual framework is

- decision usefulness.
- understandability.
- reliability.
- comparability.

5. A general journal

- chronologically lists transactions and other events, expressed in terms of debits and credits.
- contains one record for each of the asset, liability, stockholders' equity, revenue, and expense accounts.
- lists all the increases and decreases in each account in one place.
- contains only adjusting entries.

6. A journal entry to record a receipt of rent revenue in advance will include a

- debit to *rent revenue*.
- credit to *rent revenue*.
- credit to *cash*.
- credit to *unearned rent*.

7. Pappy Corporation received cash of \$13,500 on September 1, 2010 for one year's rent in advance and recorded the transaction with a credit to Unearned Rent. The December 31, 2010 adjusting entry is

- debit Rent Revenue and credit Unearned Rent, \$4,500.
- debit Rent Revenue and credit Unearned Rent, \$9,000.
- debit Unearned Rent and credit Rent Revenue, \$4,500.
- debit Cash and credit Unearned Rent, \$9,000.

8. During the first year of Wilkinson Co.'s operations, all purchases were recorded as assets. Store supplies in the amount of \$19,350 were purchased. Actual year-end store supplies amounted to \$6,450. The adjusting entry for store supplies will

- increase net income by \$12,900.
- increase expenses by \$12,900.
- decrease store supplies by \$6,450.
- debit Accounts Payable for \$6,450.

End of Exam